

(Read by Mr. Martin before joint meeting of FRB of Kansas City and its Denver branch in Denver, Colorado, July 18, 1959.)

July 17, 1959

ALEXANDER - KANSAS CITY

Herewith suggested statement for the Chairman:

"The strength that our economy has shown this year attests once more the power of accomplishment of the enormous energy, application and resourcefulness of the American people. The economic state of the nation at mid-year 1959 was indicated in two official reports that have come out only this week, showing that both industrial production and the number of Americans holding jobs were at the highest levels in our history. To those of us in the Federal Reserve System, which is dedicated to fostering monetary and credit conditions that will help bring about high levels of business and employment, maintain the stability of the currency, and promote sustainable growth in the economy, these developments have been heartening.

There are naturally other matters that are a cause for concern -- as for example the industrial dispute that presently has idled our steel plants and workers -- but then there are always matters of concern, or so it seems to all who are concerned with the economy's recurrent problems. The greatest economic problem we face is to prevent another boom and crash sequence such as has brought severe hardship in the past, and could destroy us in the future. It is a continuing, rather than a momentary, problem. Meeting it requires eternal vigilance

rather than a single stroke. That is the heart of the difficulty. We must never be lulled into relaxing. We can never let down our guard. Over approximately the last century the American economy has experienced some 25 full turns of the business cycle, an average of approximately one complete rise-and-fall each four years. Most have been short and comparatively moderate, as in the postwar period thus far. Others have been long and extremely severe, like the boom of the late 1920's and the great crash of the 1930's. Experience suggests strongly that the way to escape an economic hangover is to avoid the economic spree that goes before it. The 1930's especially gave us a lesson about the difficulty of curing a collapse that we might better and more easily have prevented. The difficulty, however, is not with knowing what to do but with doing it. The tendency is to relax at the wrong time, to let our guard down just when we should be most on the alert. It is a very human tendency, but it is a dangerous one as well. The American people have always had what it takes, and they still have what it takes to achieve our long-range economic goal of producing not mere subsistence, but a higher and higher standard of living for the community as a whole. The question remains, however, whether we are to make steady progress toward that goal, and avoid setbacks along the way. Steady progress requires that besides the will to do at all times we must show the will not to overdo at any time. The job of the Federal Reserve System can perhaps be described, in very simple terms, as one of reinforcing the will not to overdo. In the effort to do that job, the System has had to go against the prevailing

currents -- to lean against the winds of both inflation and deflation to help keep us from being blown off our course.

Experience has demonstrated that combating inflation is never as popular as combating deflation, but it is fully as necessary. For inflation has always been the forerunner of deflation, as our history has repeatedly shown, and the excess of inflation has bred the excess of deflation.

Combating these economic extremes requires universal moderation and forbearance. The Federal Reserve's authority to deal with excesses in the field of money and credit enables it to help moderate swings in the economic cycle, but it cannot do the whole job. It can and will reinforce the will not to overdo. It cannot provide a substitute for that will.

I do not believe the American people want another boom and bust cycle.

I believe that people throughout the land are tired of having the cost of living go up and the purchasing power of their money go down. I

believe that they are increasingly agreed that high employment can, and must, be accompanied by price stability; that they are increasingly aware that inflation can undermine their security as effectively as prolonged unemployment.

The effective way to check inflation is to keep our progress orderly and our currency sound. The realistic way to reduce interest rates is to borrow less and save more -- not print money and seek to substitute debt for income. If we follow the latter course, further eroding our money's value and undermining our economic security,

we will not attain what we have the power to achieve -- a higher standard of living -- but a lower standard of living and wide-spread misery and suffering. To avert that, a little prudence and common sense in the conduct of our financial affairs is required. The requirement is one we can surely fulfill. "

Thurston - Molony