

Address of Marriner S. Eccles, Member of the Board
of Governors of the Federal Reserve System,
at Banquet of the 17th Biennial Congress of The
Cooperative League of the U.S.A., Sherman Hotel,
Chicago, Illinois, October 12, 1950.

For release upon delivery,
Thursday, October 12, 1950.

One must face today's world and its future with hope but without too much expectation. Events have moved very rapidly these past few years. Three years ago, with our sole control of the atomic bomb and control of the sea and air, we could have enforced a peace settlement in Russia with little risk of war. Since then Russia and her satellites have gained enormously in economic and military strength.

The Communist blitz in South Korea has made all of us reshape our thinking as to the kind of a world we are likely to live in during the next decade. Fears and uncertainty of war lay in the back of many of our minds prior to June 25. The events of that day and succeeding days have brought them sharply to the foreground. Nor will the end of the war in Korea mean the end of our present emergency. It has just begun and means the building up and maintenance of a large military establishment and helping other countries to do the same for many years to come.

Two main problems face us in this emergency. First, we must rapidly build an adequate defense program. Second, we must develop a tough economic program at home to stop inflation. Both of these programs must be designed and carried out so as to get the maximum efficiency out of our economy.

As for the rearmament program, Russian aggression can be stopped if we call their hand and convince them that we will aggressively resist further tyranny and conquest. This means that (1) we must utilize all of our resources and labor as effectively as possible; (2) we must devote as much of our national product to defense expenditures as we can afford; and (3) we must obtain the maximum cooperation of friendly nations and win the support of neutral nations.

Of equal importance to a rearmament program is an economic program designed to assure financial stability at home. Two principal programs have been advanced in recent months to stop the inflation. The first involves a comprehensive harness of direct controls including price and wage fixing and rationing of goods. The second involves functional controls, principally fiscal and credit measures designed to reduce the volume of purchasing power available to the public and increase the purchasing power of the Government.

Inflation stems from an excess of purchasing power over the available supply of goods and services. Only by adequate fiscal and credit measures can such excess be prevented. Direct controls -- wage

and price fixing, rationing, etc. — do not prevent inflation. They only conceal and postpone inflationary results of inadequate fiscal and monetary actions. They deal with symptoms rather than disease itself. They sugar coat the inflation so that the public's will to accept the required program is weakened and destroyed.

The cornerstone of functional controls must be based on fiscal measures, principally higher taxes, but also lower nonmilitary spending and an effective debt-management policy. A prolonged period of defense preparedness like the one we face must be financed on a pay-as-you-go basis if the purchasing power of the dollar is not to depreciate further. This involves not only very high taxes but much greater efficiency and economy in the spending of public money as well as the closing of all of the tax loopholes and an enforced collection of all of the taxes due the Government.

An adequate tax program must be combined with a restrictive monetary and credit program if a functional economic stabilization program is to work in stopping inflation. People must not be allowed to bolster, through additional borrowing, their spendable incomes that have been reduced by higher taxes. Likewise wages and salaries should not be increased to offset increased taxation because they are either added to prices and make for inflation, or they are deducted from profits and thereby reduce the Government's needed tax revenue and defeat a pay-as-you-go policy. However, it would be difficult, if not impossible, to adopt the needed restrictive monetary and credit policy for the public if the Government runs large deficits instead of adopting a pay-as-you-go fiscal policy.

Basically, monetary and credit controls are needed to stop the growth of bank credit. This is the source of the money supply which is already excessive and therefore the basis of inflation. This cannot be done voluntarily by nearly 15,000 competitive banks. Therefore, the Federal Reserve should be free to use such powers as it has and be given adequate additional authority to use if necessary to stop further credit inflation.

A tough program of fiscal and credit measures is an absolute essential for an effective economic stabilization program in the current situation. However, it must be accompanied by a limited number of selective direct controls, such as those on certain scarce materials and facilities and a vigorous program to induce people to save. A large volume of new savings by individuals and businesses is required to finance the capital goods and housing needs of a growing economy. However, they should not be expected to do this without assurance that the future purchasing power of the dollar will be protected. It has already been permitted to depreciate far too much in its value. The dollar is worth but 58 cents in purchasing power today as compared to ten years ago.

If a broad and strong functional economic control program is not adopted promptly and put into effect vigorously, either the inflationary spiral is bound to continue or without question it will be necessary to impose a straight-jacket of objectionable direct controls and restrictions. Either development would be calamitous.

Inflation injures most those least able to bear injury. It strikes at the core of democratic capitalism. It destroys the strength and moving force of our economic system. It must be stopped. An extensive system of direct controls would not only seriously impair the functioning of our economic system but would also lead to the weakening and eventual destruction of the very foundation of social and economic life that we are seeking to preserve in our defense against Russian Communism.