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Wednesday, September 25

Opening Statement of
William McChesney Martin, Jr.
Chairman, Board of Governors of the Federal Reserve System
at Panel Discussion on
"Current Problems of Monetary and Fiscal Policy"
Twelfth Annual Meeting International Bank for Reconstruction
and Development and International Monetary Fund

Wednesday, September 25, 1957

In this room over the past several days there have been gathered the great preponderance of the individuals who, in their official capacity, determine the financial policies of most of the governments of the world. That world today is characterized generally on the one hand by great prosperity, great activity, and great vitality, and on the other by pervasive inflationary pressures.

There are some who say that these two aspects of the current scene are not only related to each other, but are indissolubly linked -- that we cannot enjoy the blessings of vital and active economic progress without incurring in some degree the ravages of inflation, that a progressive erosion of the value of our savings is a necessary price, and a not unreasonable one that must be paid for economic progress.

I wish to enter a firm dissent. I do not believe that either the jobs or the internal growth and development purchased by inflation afford a firm basis for either sustained employment or development. I refuse to adopt the defeatist position that inflation is the alternative to unemployment or to take refuge in the cynical rationalization that the pursuit of sound fiscal and monetary policies is impossible in a democracy.

There are others who point out that there are many novel features in today's generalized inflationary pressures. Most of us are now experiencing pressures that stem from unduly heavy defense expenditures, from growth in population, from demands for higher wages, from widespread resort to so-called escalator clauses in collective bargaining contracts, and from the prevalence in the modern world of cost-plus contracts which act to accelerate operations of the inflationary spiral.

It is true that many of these forces complicate our problem today, but that fact merely states the dimensions of our problem. It in no way diminishes our duty, as the responsible financial officers of our respective governments, to devise and apply financial policies adequate to provide for sustainable expansion and growth and improved standards of living without inflation.

It is fundamental that growth must be financed out of saving. It is fundamental in times like these that those of us who are responsible for the fiscal policies of our respective governments see to it that public finance does not dissipate the savings of the community, but rather contributes to them and fosters their continued growth. It is equally fundamental that those of us who are responsible for the formulation and execution of monetary policies see to it that created money does not substitute for savings in such a way as to contribute to an erosion of the purchasing power of the people.