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Summary of Remarks
by
Arthur F. Burns, Chairman,
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at the
New York Stock Exchange

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The most urgent economic problem facing our nation is to make a success of the new stabilization program initiated on August 15th to rid the economy of inflationary pressures, stimulate economic expansion and restore our competitive position in international markets.

Developments of the past ten or twelve years indicate clearly that inflation has had a devastating effect on our rate of economic progress. When inflation runs riot, as it has in recent years, gains in productivity are retarded and may even cease, and, as a consequence, growth of real output slows. Rising costs and prices in the U. S. economy during the latter years of the 1960's exerted seriously adverse effects on major sectors of aggregate demand. Uncertainty led to cautious buying patterns among consumers and thus to a higher savings rate. The ability of American producers to sell abroad was injured, while the ability of foreign producers to invade our markets was increased. The rise in interest rates that accompanied inflation, furthermore, depressed home building and had a sizeable effect on state and local government construction.

The evidence also indicates that in our economy, and in other modern economies, inflation reduces corporate profits and profit margins. Last year, profit margins of our nation's corporations fell to the lowest level of the entire postwar period. This is of fundamental importance to our national economic health; for when profits

turn sluggish in an economy based on free enterprise, jobs of millions of workers become insecure.

In the summer of 1968, the first of a series of corrective steps was taken to stem the tide of inflation. The fiscal and monetary measures taken in 1968 and 1969 eliminated excess demand. But in spite of the weakness that developed in 1970 in markets for goods, services, and labor, the rise in wage rates, costs, and prices continued at virtually an undiminished pace.

By the middle of this year, it became increasingly apparent that the inflation, besides eroding the incomes and savings of wage earners and reducing business profits, was retarding the recovery of our economy. Though a business recovery had gotten underway late in 1970, the pace of expansion was below expectations, and unemployment remained high. Consumers and businesses were hesitant to expand their buying plans, and our international trade balance weakened further. The President, therefore, acted decisively in mid-August to deal with the dual problem of inflation and unemployment.

Economic developments since August 15 have, on the whole, been heartening. The new stabilization program has received widespread public support, and recent data on prices and wage rates made it clear that the freeze has been extremely effective. Consumer buying has picked up materially and demand for labor has risen sufficiently to begin reducing unemployment. Interest rates have come down substantially, as the inflationary premium has been squeezed out.

There are many reasons for being optimistic about the future. The 5-1/2% guideline for wage rates set by the Pay Board is realistic for the present, and with productivity gains likely to improve, the goal of cutting inflation in half by the end of 1972 is achievable. As the pace of inflation moderates, and fiscal policy becomes somewhat more stimulative, consumers are likely to reduce their savings rate and business firms will step up their spending plans. A further rise in aggregate demand for goods and services is likely to induce a sharp rise of inventory investment, given the present condition of inventories relative to sales.

The financial climate, moreover, is conducive to economic expansion. Commercial banks are liquid, and nonbank thrift institutions are enjoying record inflows of deposits. Interest rates are still falling, and yesterday's decline in the Federal Reserve discount rate recognizes that fact. Though growth in the money supply has slowed recently, the slowdown has been a temporary departure from a longer-run moderate growth path. The Federal Reserve intends to see that adequate bank reserves are provided to finance a vigorous, but sustainable, expansion.

As economic recovery accelerates, we can be fully confident that all classes of income, including corporate profits, will rise. This outcome depends, however, on our achieving success in the struggle with inflation.