

Remarks by Arthur F. Burns  
at the  
Summit Conference on Inflation  
Washington, D. C., September 27, 1974

I've attended several of the pre-Summit meetings and I am encouraged by the full understanding on the part of all participants of the gravity of the inflation problem now facing our country. This inflation has been gathering force over the past decade, and has now reached a stage where it is endangering our economic and political future.

As a result of the inflation, our nation's capacity to produce has suffered a setback. Despite sluggish economic conditions for some months now, shortages of materials, component parts, and equipment remain acute in many of our essential industries.

As a result of the inflation, consumer purchasing power is being eroded. During the past year, the take-home pay of the typical worker has declined from 4 to 5 per cent in what it will buy.

As a result of the inflation, the real value of the savings deposits, pension reserves, and life insurance policies of the American public has diminished.

As a result of the inflation, corporate profits derived from domestic operations have eroded -- a fact that is concealed by accounting techniques that had been devised for inflation-free times.

As a result of the inflation, financial markets have experienced strains and stresses. Interest rates have soared. Some financial and industrial firms have found it more difficult to refund maturing debt or to raise needed funds in the money and capital markets. Savings flows to thrift institutions have sharply diminished, and stock prices have been badly depressed.

In short, as a result of the inflation, much of the planning that American business firms and households customarily do has been upset, and the driving force of economic expansion has been blunted.

It should not be surprising, therefore, that the physical performance of the economy has stagnated in recent months, and that unemployment is now larger than it was last fall. We cannot realistically expect a resurgence of economic activity until confidence in our nation's economy is restored. The most important requirement for rebuilding confidence, I believe, is hard evidence that we are making progress in checking the disease of inflation.

In view of the intensity of inflation, the Federal Reserve System has been striving for some time to hold down the growth of money and credit. Rapid monetary expansion, in the present inflationary environment, would add fuel to the fires of inflation and thus worsen our economic troubles.

We at the Federal Reserve have tried to apply the monetary brakes firmly enough to get results, but we have also been mindful of the need to allow the supply of money and credit to keep expanding moderately. The overall supply of money and credit has continued to grow this year, but at a slower pace than before.

However, the demand for money and credit has been much greater than the supply. As a result of the huge demand for borrowed funds, credit markets have become tight and interest rates have risen to an extraordinarily high level.

These high interest rates have imposed a heavy burden on businesses and families across the nation. Homebuilding, in particular, has been hard hit by the developments in the money market. Soaring interest rates, outflows of deposits from thrift institutions, and the consequent decline in availability of mortgage credit have greatly aggravated the condition of the homebuilding industry, which was already suffering from sharply rising

construction costs, from erosion in the purchasing power of consumer incomes, and from the overbuilding of the last two years.

It may now be, however, that tensions in financial markets are beginning to ease. With continued moderation in current demands for goods and services, shortages and imbalances in our factories and shops are diminishing. And the Federal Reserve in recent months has been successful, as I have already suggested, in limiting the growth of money and credit to reasonably appropriate dimensions.

We have therefore been able recently to take actions that have reduced somewhat the pressures exerted on the banking system. Short-term market interest rates have responded to this relaxation, and have declined from their July peaks. Long-term market interest rates have stabilized, albeit at very high levels, and they can surely be expected to fall back once some progress is made in curbing inflation. Mortgage interest rates and other institutionally determined rates traditionally lag behind market rates, and they too will respond to progress in curbing inflation.

The recent movements of interest rates are encouraging, but we cannot count on any very substantial reduction until borrowers and lenders in the market are convinced that the Federal Reserve is no longer pursuing a lonely struggle against inflation.

Monetary policy is much too blunt an instrument to be relied upon exclusively in what needs to be a national crusade to bring inflation under control. It is of vital importance that fiscal policy actively join in the battle. Frugality in public expenditures, and a budget that is tilted toward surpluses instead of deficits, can make an enormous contribution to curbing inflation and to lowering interest rates.

A policy of monitoring wages and prices, but relying on voluntary cooperation, can also play a modest -- but useful -- role in curbing inflationary excesses. I am hopeful that the newly established Council on Wage and Price Stability will help to point the way to anti-inflationary conduct on the part of business, labor, and the consuming public alike.

Programs that seek to enlarge our nation's productive capacity and to intensify the forces of competition can be very helpful in combatting inflation over a longer period of time. In this connection, let me stress the need to devise effective

measures for improving the productivity of our labor force, which has been lagging badly of late. Greater output potential and increased productivity per worker are essential to achieving a better life for all of our people.

In closing, I want to assure you that the Federal Reserve will persevere in pursuing monetary policies that are necessary to curb our rampant inflation. But we also intend to keep the supply of money and credit moving upward, so that the needs of the economy may be met. Further, we fully recognize our responsibilities as the nation's lender of last resort, and we will not hesitate to come to the assistance of financial institutions that are caught in a temporary liquidity squeeze. I assure you that there will be no credit crunch in our country.

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