

Remarks delivered on
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BATTLE REPORT---WASHINGTON

I am happy to have this chance to speak with you about the dollar.

Because everywhere the American dollar has been a symbol of strength. And inflation reduces the value of our dollar and makes us weak. But we can avoid inflation by a well-balanced relationship between the dollars we have to spend and the goods on which we can spend them. The scales should be evenly balanced. If there are too many dollars and too few goods, prices go up.

That's inflation.

Our supply of dollars increased greatly during the last war. We still have a very big supply. It threatens to become much bigger.

Even before Korea there were clear signs of renewed upward pressures on prices.

And now the need to bring back the balance between dollars and goods is very evident--because more dollars are being supplied and less goods will become available as a large part of the goods will be diverted to defense.

If this gets out of hand it may become ruinous.

The German inflation after World War I ushered in Hitler. The more recent Chinese inflation paved the way for Communism.

How then can we restore and maintain this balance? We can do it first of all by taking dollars away through taxes. But also we must curb the further growth of credit. It accomplishes nothing to tax dollars out of our pockets if we can replace them with borrowed dollars to be spent on a limited supply of goods.

The facts are that--credit extended by banks has been sharply expanding. And borrowing by you and me to buy automobiles and other goods--called consumer credit--has been growing rapidly. Real estate credit has been going up and up and up.

Borrowing from the banks creates more and more dollars, whether done by our Government or by you and me. Since our Government must have more dollars to spend for our defense, it is important that what our Government doesn't get through taxes it borrow not from the banks (which is inflationary) but (so far as possible) from the public and nonbanking institutions.

It is likewise important that all of us--business and you and I--curb our borrowing.

Therefore, the Federal Reserve System must use the means it has to restrict the growth of borrowed dollars. The three general means we have to accomplish this are technically known as--open market operations--discount rates--and reserve requirements. They influence lending by banks.

Later we may need additional general means.

But we also have three selective means:

First, to restrain stock market credit;

Second, to restrict credit on automobiles and household appliances (known as consumer credit);

And, third, to curb credit expansion for new construction in real estate.

These three selective means restrain the borrower or the buyer--you and me.

All these means are weapons--to fight inflation--and are as essential as the weapons to fight on the battle front.

Therefore, you'll agree that we must strive for balance--which is economic stability.

We must keep our people employed and we must keep our factories and shops making goods--goods we absolutely need in our daily lives--but, above all, making everything we must have for our national defense.