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WHO SPEAKS FOR THE SAVER?

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Savings and investment are like two sides of the same coin. The claims of individuals or groups have counterparts in the liabilities of other individuals or groups. Whatever form savers may choose for their savings, their formation in general is the same as new investment. No changes in amount or types of credit can alter this basic fact---that investment and savings are counterparts of the same economic process.

Much has been written concerning the virtues of savings; yet during and after the Great Depression of the 'thirties, saving came to be regarded by some as an economic "sin". Especially in times of economic stress and inflationary boom, the apparent abundance or scarcity of savings comes to public notice.

Growth Factors in the Economy

Certain trends seem to point to a strong long-run demand for savings. In the recent past, technical advance has been accelerating. Judging from the gain that our economy has already achieved, and the rate at which research brings forth new fruits, the long-term demand for capital seems likely to continue.

Population growth, which has continued at a high rate since World War II, provides another strong sustaining impulse to the economy. For the young, it calls for educational facilities, from kindergarten to college; for those of working age, it calls for plants, tools, housing and other forms of capital; for those still older and past the age of retirement, housing, recreation, and hospital care must be provided. Moreover, advancing technology will permit continuously rising consumer standards. The physical facilities for a good life, once reserved to a few, are now available to millions.

These growing demands for capital will create a strong need for savings accentuated by the quickened obsolescence stemming from rapid change. In the ebb and flow of economic activity, however, we may expect intervals when capital demand places great pressure on the supply of savings to alternate with pauses during which the economy readjusts and sets the stage for further advances.

Pressures on Credit

In times of boom, as in the recent past, there is pressure for a more abundant supply of credit from people who wish to spend or to invest faster than their income and available funds permit. And so the cost of borrowed money tends to rise. Its cost rises and falls, as do other prices, with changes in the demand for and supply of it. The Federal Reserve System, charged with responsibility for keeping the supply of credit in tune with the volume of resources that are available, exerts its influence by modifying the supply of bank credit--and thereby total credit--and thus affects the cost of money.

Restraint on credit availability has a direct impact on the level of investments. By making credit available, the Federal Reserve may enable the market to meet a potential demand for investment funds, or by withholding credit it may induce a process of market selection that emphasizes the more urgent and credit-worthy demands. Federal Reserve policy, through action on the cost as well as on the availability of money, has an indirect effect on consumers' and business decisions. It influences the use of current earnings and accumulated funds to meet expenditures that otherwise would require credit financing. It influences the alternative uses of current income for expenditures, or for additions to financial assets.

In times of boom, the Federal Reserve has a duty to restrict the supply of credit, since too easy credit would throw the supply of money out of balance with available resources, and add to inflationary pressures. In times of slack, the System helps cushion the inescapable readjustments that are taking place by fostering easier credit conditions, which provide incentives for utilizing resources more actively.

Protecting the Incentive to Save

It is not surprising that many voices should be heard calling for easy credit under all conditions, boom or slack. Borrowers are, of course, very numerous indeed. Some 50 per cent of American families owe consumer debt and about 30 per cent have mortgages. But most American families also have deep-rooted saving habits. There are actually more savers than debtors. There are about 120 million life insurance policyholders; accounts in mutual savings banks run over 21 million; another 21 million accounts are held in savings and loan associations; and the number of investors in stocks is estimated at around 10 million. These totals involve overlapping, of course, since every borrower participates in the formation of savings, and every saver is an actual or potential borrower. What seems surprising is that the same solicitude shown for debtors is not apparent on behalf of savers. This gives point to my question: who speaks for the saver?

I am not unaware of the excellent speeches in defense of the integrity of the dollar that have been made by bankers and insurance company officials, as well as academic and political leaders. Nor do I overlook the current advertising campaign of the insurance industry. And yet, the path of prudence has traditionally been difficult to defend, except in countries like Germany where memories of hyperinflation remain vivid. To partake of just a little inflation is tempting to those whose subconscious does not bear the impress of inflation's hardships. To escape from debt is still a strong temptation if business turns poor and makes the debt load heavier to bear. Under such conditions, Mirabeau and Bryan won their readiest converts, for the despair of the moment blinds many to the ultimate penalties of imprudent, unsound policies that endanger the integrity of the monetary unit.

Protection of savings is vital if the incentive to save is to be fostered and not diminished. In a world crying for development and growth so that countries may move toward higher economic activity and people may enjoy continuing improvement in their scale of living, one can ill afford to discourage saving. The desire to accumulate savings would be undermined if inflationary forces were permitted to erode them.

The Twin Goals of Policy

It is my conviction that the two objectives of monetary and fiscal policy--economic growth and monetary stability--are inseparably linked. In the long run they stand or fall together. To me, the orderly, sustainable growth of our economy, and the provision of the savings necessary to it, are most unlikely unless the purchasing power of the dollar is kept stable. Rising prices, in general, lead to less care in the allocation of capital and other resources.

If the purchasing power of the dollar declines persistently, the incentive to save is undermined, as stressed already, and business executives in their decision-making tend to substitute speculation for the goal of long-run efficiency. Instead of decisions made prudently in the light of well-founded expectations as to market demand, productive capacity, inventory needs, and changes in productive efficiency, businessmen are tempted to speculate on steadily rising costs and values, and upon being able to pass on, in price increases, the additional costs of forward commitments. The end result of such decisions is the misallocation of resources. Out of such imprudence come the unsustainable booms and crises that have punctuated our industrial history.

To achieve these dual objectives of growth and stability, the nation needs to maintain a proper balance between them. At a particular moment it may have too little plant to fill consumer demand, or else may build its capacity so that the excess depresses prices and business. The long-run health of the economy turns on striking a balance among the countervailing and changing forces--business and consumer, private and government. It depends also on how well fiscal and monetary policies are attuned to the needs of a flexible economy, in which some sectors are readjusting while others continue to sustain growth.

Growth and Stability in Recent Years

The experience of the past few years sheds some light on problems involved in maintaining economic growth and stable prices during a period, first of rapid cyclical recovery, and then of advanced rates of resource utilization. The early part of the period was characterized by price stability; thereafter, the general price level rose persistently.

The year 1954 is the starting point. Toward the end of that year, economic activity began a steady climb from the low point of the 1953-54 recession. In tracing the path of economic activity through 1957, we find illuminating variations in output and price movements.

During the period 1954 to 1957, the gross national product in current prices--the measure of the nation's output of goods and services valued at prevailing prices--rose by about 20 per cent. In contrast, the rise of gross national product in constant prices, i.e., the value of output after allowing for price rises or declines, rose by only 11 per cent.

The largest part of the growth in output took place in the early part of the period. During 1955, gross national product in constant prices rose 7 per cent, while industrial production, as measured by the Board's index, was 11 per cent above that of the previous year. By mid-1955, as manpower and industrial resources had become intensively employed, industrial prices, which had shown little change up to then, began to rise sharply. Consumer prices, however, were relatively stable throughout the year. Such a pattern reflects the transition from recession to recovery to boom at record levels of activity.

During the past two years, the gross national product in current prices has risen about 5 per cent a year. In constant dollars, however, the increase was 3 per cent in 1956 and may amount to perhaps only 1 per cent this year. Meanwhile, industrial prices rose 3 per cent in the course of 1956, and somewhat further this year despite declines in prices of a number of materials. Consumer prices began to increase sharply in the spring of 1956; in September of this year, they were 5-1/2 per cent above their level of April 1956.

Although it is not safe to draw too firm conclusions from short-run economic movements, this much might be said of the past three years. We achieved our most rapid growth during the period of relative price stability.

Subsequently, the rate of growth fell sharply. Thus, the argument that creeping inflation would stimulate the rate of growth in real output has not been substantiated by recent experience. The further rise in prices proved to be functionless.

The Balance of Savings Supply and Demand

Pressures giving rise to general price increases also spilled over into the underlying savings-investment process. Much has been said recently about a shortage of savings. It is true that during this time there has been a shortage, in the sense that there has not been enough savings to satisfy the potential demand for investment funds. This shortage is not one that can be measured readily by statisticians. It is a shortage in the amount people are prepared to save in relation to what they want to invest. This is reflected in rising interest rates, as has been the case in recent years. Statisticians can only measure the dollar amounts of what individuals, businesses, and governments actually save. For the nation as a whole, and for any given period, this is by definition equivalent to investment; but for any single sector, savings and investment are not necessarily equal.

In the recent past, this shifting balance has been an important element both in contributing to economic growth and in moderating inflationary pressures. This may seem to be a paradox, but it can be resolved by taking a close look at the changing preferences of individual consumers and of corporate businesses for the various forms of savings. Bear in mind that each group saves in both tangible and financial forms. Tangible savings includes consumer durables, housing, plant and equipment. Financial savings is the acquisition of various classes of financial assets minus any growth in debt. The movement of aggregate savings masks shifts in forms of saving, --shifts that in many ways reflect monetary and other economic forces.

Stepped up purchases of homes and durable goods by consumers led the spurt of economic activity during 1955. These tangible savings were financed by a sharp growth in consumer debt. Only a moderate increase occurred during this period in corporate plant and equipment purchases. Thus, in 1955, consumer demands for financing were not reinforced by business demands; a balance between the supply and demand for savings was achieved at a moderate rise of interest rates.

During 1956, however, there was a rapid expansion in investment demands from corporations, as well as from State and local governments. Their demands supplemented those of consumers, and total demands pressed hard against the supply of savings. Interest rates rose significantly further.

In 1957, the pressure on financial markets from the upsurge of business investment demands continued and was reflected in a still sharper rise of interest rates. During this period, the nation's foremost financial problem was to dampen investment demands, and to encourage an increase in the supply of savings.

As interest rates rose in 1956 and 1957, individuals shifted increasingly from tangible to financial savings. This shift towards increased financial savings has contributed to the alleviation of inflationary pressures in the economy. Nevertheless, the rise of prices and interest rates attests to a general shortage in savings for that period.

While the economy will be subject from time to time to pauses in the growth process, to times when there may seem to be too much rather than too little savings, the long-run outlook is for continued active demand for them. In the immediate future, urban renewal, education, utilities, and foreign investments are among the areas where investment potential may be particularly strong. Over the long run, our growing population, technological innovations, and rising consumption standards--together with the urgent demands of the less developed countries of the world--suggest the need for even greater expansion of savings if growth is to be sustained without inflation.