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THE STRUGGLE FOR ECONOMIC STABILITY
(A BICENTENNIAL OPPORTUNITY)

Remarks of

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The Struggle for Economic Stability
(A Bicentennial Opportunity)

In the two hundred years of our nation's existence, the economic challenges facing this country have shifted as the nation matured but the problems of stabilization, to a considerable degree, retain a striking resemblance. Though the challenges have intensified, many of them are the same. The stabilization problems seem more complex and the chances of error substantially greater but our knowledge and tools should have improved with the passage of time. Certainly our objectives have stayed very much the same over the two centuries. We continue to aim toward economic growth at a pace sufficient to provide reasonably full utilization of our human and material resources while promoting an increase in the standard of living for all of our people.

In the early part of our nation's history, the primary economic challenge was one of expansion--expansion into the unknown frontiers of the West, expansion of our industrial capacity and expansion to develop an infra-structure of economic facilities which could tie the nation together. We need to remind ourselves that the nation was only a collection of settlements along the eastern coast when the Declaration of Independence was signed. In subsequent years the expansion westward brought more and more land under

the flag of the United States. As the nation expanded, and the number of people increased, there was further growth in the industrial base while building highways, railroads, and communications facilities. It was a continuous struggle because land acquisition jumped ahead of the means to develop it. In fact this development was not really complete until this century.

We are commemorating the bicentennial of our nation next year and I suspect that most of us have a certain reverence for our forebears, the people who fought this dynamic land and conquered it and along with it the floods and droughts, the tremendous expanses of space with slow communications, slow transportation and a localized credit market. But these people we remember on this two hundredth anniversary were people recognized for their independence of spirit, their fortitude, their self-reliance and their strength of character and moral fiber. Of course, there were slippages and there were people who did not measure up to the high ideals of the Pilgrims, but as a whole they were a group with an indomitable spirit of challenge and adventure, meeting the job of creating and welding together a new nation, a nation eventually to cover mile after mile of western frontier. Through both conquest and purchase, the nation's frontiers spread from the Atlantic to the Pacific.

Early in the nation's history, it faced many of the same problems as would recur in most of the next two hundred years--a shortage of credit, over-spending by government and quite often an imbalanced credit supply against the credit demands of the nation. Time after time, with recurring wars, the expenditures of the nation accelerated sharply and so did the price level. The resulting higher inflation rates were dampened by the further expansion of the nation and the corrective phases of the post-war periods.

It was a young and dynamic nation, attracting capital from abroad. One can scarcely develop the history of the United States without recognizing the capital inflows from the Scottish trusts into some of the western cattle areas and the British and French endeavors which brought new capital into the expanding free world. But the nation was a nation of thrifty pioneers in those days, people with a challenge to meet, whether it be at home or on the western frontier. Through this time the nation struggled with the challenge of a credit insufficiency, shortages and stringencies which held up the expansion of the nation, which interrupted its growth, and which slowed the expanding industrial frontier. In those early years the currency was the Continental and even today the Continental is remembered primarily for its declining value in the well known saying, "Not worth a Continental." The nation also used gold and silver and established a gold-backed currency, one

backed by gold output from its own mines, gold which stabilized the value of the currency and which attracted new capital to this nation. But despite this, the nation suffered a second major setback in the greenbacks created during the Civil War, and even today our children hear the historians say that greenbacks were a devalued currency. Those in the South hear their grandparents say to save your Confederate currency for "the South will rise again."

In the first one hundred and twenty years of the nation's existence it attempted two national banks to avoid the problems of inadequate and inelastic currency supplies.^{1/} Even as late as 1907, the United States experienced a major money panic when the currency supply contracted as national bank notes were pulled back to their original bank of issue and the nation's credit supply was sharply diminished. And it wasn't until after the 19th Century that this nation converted its currency backing from silver and gold to one of gold alone. One remembers the great Bryan "cross of gold" speech and the debates over monetary equality between silver and gold. But the results of these pressures--inelasticity of the currency, inflexibility of its supply, and the poor placement of the credit availability relative to the demand needs--brought the nation to the creation of a new central bank. Late in 1913 President Woodrow Wilson signed the Federal Reserve Act, and in 1914 the twelve Federal

^{1/} Bank of the United States, established in 1791, expired 1811. Second Bank of the United States, chartered in 1816, dissolved in 1836.

Reserve Banks opened their doors to begin to help monitor and control the nation's money supply and smooth out the flow of credit. The Federal Reserve was to supply credit during periods of seasonal demand and contract it in periods of seasonal slack.

But the mere existence of a central bank and the fact that the nation's currency was largely converted over the next forty years to Federal Reserve currency, did not solve the economic stabilization problems of our nation. Repetitive wars again sharply expanded the nation's demand for credit, enlarging its deficits and boosting its money supply with consequent increases in inflation. And even the existence of a central bank did not stop the nation from slipping into a major depression, following the excesses of the late 1920's. But slowly and gradually the nation enlarged its capability and efforts toward economic stabilization, and slowly and surely it has brought some elements of economic instability under better control.

At the same time, the nation faced new problems. We came out of World War II with a highly developed industrial base, one hardly touched by war, and one geared to shifting into consumer products to supply the nations of the world and to supply the people of the United States with their highest potential standard of living. We also came out of the war with a well developed credit system. There developed a single credit market. No longer could the West Coast have a severe liquidity crisis while the East

Coast basked in a plethora of credit availability. Credit terms became competitive across the nation and even into credit markets abroad. But this very expansion, this very growth of credit availability and uniformity were to create still further problems as the nation advanced toward its bicentennial.

Additional wars in Korea and Vietnam, took their toll in further credit deficits by our Federal Government and a further major expansion in money supply. They also took their toll in an erosion of the degree of control which our nation seemed willing to tolerate to meet the challenges of tomorrow. Meeting the complexities of a modern national and international market place, and the problems of a demanding economy with a well-developed industrial capacity, but an eroding raw material base seemed almost beyond our abilities. Our people came to expect a major advance in their standard of living each year, yet the base, for that expansion seemed to be crumbling, and the erosion took place year after year without sufficient recognition.

We based our growing nation upon a fundamental tenant of freedom, freedom to invest, freedom to make a profit in a free enterprise economy in a capitalistic system. But we based this nation upon a fundamental belief that most people are inherently honest, that government can be trusted, and that the will of the majority points the way to the most supportable, long-term course

for the nation to follow. To many of us the free enterprise capitalistic democracy is still the strength from which we should pursue our economic future. While further concentration of authority has taken place in our central government for the past 50 years, nevertheless, there is an inherent strength of individual decision which, I believe, we as a nation must claim if we are to enlarge the economic fruits for all of our people. To some extent, the growth, complexity, and inter-relationships of our nation of 50 states cried for some centralized direction of the economy. It is a tribute to past generations that they developed a constitution which would handle the crises of the past few years. It is a tribute to the leaders of the past 100 years that they have resisted the siren song of a central government, all powerful over the states, and resisted the lure of a planned economy all powerful over the wishes of the individual.

In the broad sweep of this 200 years, the problems of the moment seem less significant. Our forefathers fought to achieve the western invasion with the same intensity that we now seek to fight the problems of a modern industrial society. And yet our difficulties with economic problems are strikingly similar to theirs. We still struggle to provide the capital for expansion, the savings necessary to support that capital, and the finely honed balance of a credit supply not excessive to legitimate demands of

the nation nor too stringent to force contraction. In this period of 200 years we have shifted from a currency with a hard metal base to a currency backed by the debt of our central government. We have shifted from a collection of small banks located in individual towns to large financial organizations with ties throughout the nation and abroad. We have shifted from a self-sufficiency and independence of raw materials supply to a position in which that independence is materially weakened, and where raw materials are drawn increasingly from foreign sources.

In a way our nation is now much more dependent upon the economic trends of the world than at any time except the first 50 years of its existence. But I suspect that in the transition we have lost a measure of the fine qualities of past generations. We have lost some independence of spirit, some willingness to struggle for ourselves and to take care of our neighbor, and some element of self-reliance. We seem to have lost some of the strength of character and moral fiber which bound this nation together through most of two centuries. We still face the economic challenges, the challenges which many of our fathers and grandfathers faced, but we have made too little progress toward an ultimate solution of those challenges.

So as we gather to celebrate our bicentennial to commemorate the 200 years of our existence as a nation, let us view this as an opportunity to rededicate ourselves to a viable, strong, and independent economy; to an economic system where a person's work is rewarded according to ability and productivity, to an economic system where centralized government does not take away freedom of choice; and to an economic and financial system that provides the credit needed for expansion at a price within reach of most Americans. This bicentennial is an opportunity to meet the challenges of tomorrow, to provide more concrete solutions to our economic problems, to reformulate the priorities of our nation and to assure through both legislative and individual effort the completion of those priorities within our free enterprise capitalistic democracy. So let us dedicate ourselves to the solution of these tasks, to achieve fiscal responsibility, financial control, competitive free enterprise, corporate and individual financial statesmanship and moral integrity, and a return to the dignity and recognition of a person's work.

Our first challenge--the fiscal responsibility of our nation, state, city, corporate and individual endeavors--scarcely needs much elaboration in today's environment. "Pay as you go" is still a well recommended and financially desirable approach to expenditures. But "Pay as you go" does not have to mean no debt or no mortgage of the

future, though it does mean a calculated and carefully controlled debt with clear and understandable moral obligation to repay as both debtors and creditors accept the responsibilities inherent in purchases on future payment. Let us return local problems to local control, let us see that our cities and states handle the jobs of welfare, city decay, mass transportation, and the other challenges of our new society so that the people who benefit from a project are those who pay for the project. Let us insure that our cities and states carefully monitor their ability to pay so that they are not over-extended--so that we have no more New York situations, either city or state--and so that our corporations too can live and work in an environment which enables them to grow, but grow in a prudent manner. And let us also dedicate ourselves to handling our individual financial responsibilities, foregoing those items for which we cannot pay within a reasonable period of time, and foregoing those speculative lures which come into the horizon in this complex society, so that we can add our strength, in a financially solvent sense and provide the savings necessary for the future expansion of our economy.

Secondly, we need better financial control and stability. We need to modernize our nation's central bank to meet its responsibility for control over credit-creation in this nation to insure that the supply of credit is equal to the legitimate demands, but are not excessive to those demands. Let us modernize and yet put such limits on the central bank so that it too must be responsive to the needs of the nation but not to the whims of the politician. To me this means expanding the control of the central bank over the broad range of financial institutions who today account for such a large proportion of our credit transactions and yet whose activities are out from under the control of the central bank. To me this means insuring that the central bank can provide the policy guidance to the nation irrespective of the political whims of legislatures and yet stay within the bounds of government so that it is responsive to the over-all direction of economic stabilization toward which I hope our nation will rededicate itself.

Thirdly, it means providing a more competitive environment in our economic and financial endeavors, enlarging the ability of firms to meet the needs of the customer and yet so limiting their handling of the public's funds that they too are circumscribed in the degree of freedom by which they can alter the financial control of our nation. It means providing more and better credit facilities and services, and yet credit organizations and a financial structure which will be easily controlled and monitored so that the irresponsible

manager who attempts to over-indulge either himself or a weak customer can be pulled back into line before irreparable damage is done. It means maintaining for our nation today and tomorrow a clear-cut signal of financial prudence to those that we place in charge of the financial institutions of our nation. It means a high standard of financial honesty--honesty achieved by living by arm's-length dealing wherever the people's money is involved whether it be at the national, corporate, or local level. Our solutions in the future need to also involve our corporate leadership, expanding their financial statesmanship to maintain their eye on the profit line but keeping a wary eye on the impact of their actions on the nation as a whole. It means insuring that corporations will hue to a line of financial prudence in their dealings between each other and abroad. And it means a redevelopment of the moral integrity of our corporate leadership--leadership which should abide by all the laws, which knows that the bribes and under-the-table financial dealings of the past were not in keeping with the high principles of the American dream.

Finally, for you and I, and for all the more than 200 million Americans, it means a return to an old-fashioned work ethic with each being paid according to ability and contribution, with each working to the best of his endeavors, to the best of his ability to move up the economic stream to improve himself but not at the expense of

others. It involves contributing to the national economic growth and the welfare of our nation, providing some time toward public service, forgetting personal goals for the moment but instead contributing time and talents to the solution of public problems and the betterment of mankind.

To me, the bicentennial means a truly great opportunity to meet these challenges of yesterday, today, and tomorrow. I am convinced that with all of us pulling together and with wise and prudent leadership, we can lay to rest some of the economic problems which have plagued our nation over the past 200 years, and that each succeeding birthday of Uncle Sam can bring us steadily closer to fulfillment of our American dream of economic progress and stability.

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