

ADDRESS

by

CHARLES N. SHEPARDSON

Member  
Board of Governors of the Federal Reserve System  
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Nashville Branch  
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Mr. Chairman, Mr. President, Gentlemen:

It's a pleasure and a privilege for me to be with you on this occasion. First, lest I forget it, I want to express my appreciation for this Certificate of Citizenship which I just received from your good Mayor. The Chairman, in recounting my background, mentioned the fact that I stayed in Texas long enough to become a citizen of Texas. As you all know, a good many Texans at one time traced their lineage back to this good state, so maybe it's appropriate that I have a Certificate of Citizenship from the city here.

First, I would like to express appreciation for this occasion in connection with the opening of our new building in your city. As you know, the System has two major functions, one dealing with the credit and monetary policy of the country to which I will make a few remarks in a moment; the other, a supervisory or regulatory function as one of the Federal bank supervisory agencies. The building here, of course, is a physical evidence of our efforts to serve the banking and financial needs of this area.

I have had occasion over the years to visit this city, and I have been impressed with the job you folks are doing in building this community. This morning, when we had the economic review over at the bank, it was interesting to note that this district has stood high, first, in its resistance to the recession and then in its recovery from it. I think it's typical of what's going on in this great Southeast section. The completion of this new building is but one of the many symbols of the growth and economy of this area. My early years in the South were in the Southwest, but I think that

the problems here in many respects were similar to the problems there-- mainly, the lack of capital for the development of our resources. I well remember the talk when I first went to Texas of how we were at the mercy of Wall Street in New York. I think one of the encouraging things in this country is the financial development in all districts over the country to the point that we are better able to take care of our own needs locally. The growth of banking activity in this district is symbolized by the need for and now the culmination in providing more adequate facilities for the Fed activities in this area.

I congratulate this city and this area on the growth that you are making, and we hope that this new building, both as a symbol of that growth and as a point of material service, may help in the continued growth and development of this great Southeast.

Mention was also made of the fact that most of my experience has been in the field of agriculture. Most of my contacts in the Southeast over the years have been in connection with that agricultural activity.

I want to take just a moment to mention one thing that I think is of extreme importance. Agriculture, in the past twenty years particularly, has burst beyond an evolutionary change into a revolutionary change. Agriculture is today availing itself of the opportunity that capital can provide, in the use of modern technology to step up agricultural productivity. Naturally, that has brought with it changes. As you all know, this has been true of a large number of marginal or sub-marginal farmers in this area who have been unable to make the adjustments to get on an efficient productive basis. So we have had the problem of the small farmer.

Within recent years there has been instituted this program of rural development, not as some people think, to run the farmer off the farm, but rather to help provide an opportunity for the farmer to find a more productive outlet for his talent and capacity than he has had on some of the limited physical resources existing on many of these small farms. This shift to other types of occupation has been going on not just for five years, or ten years, or twenty years--it's been going on throughout the history of this nation. But, as I said, in recent years it has become explosive in its rate. Heretofore, much of that shift in occupation has been accompanied by a shift in location, a migration to the cities with all the attendant evils. To me, the bright thing in this rural development program is the bringing of alternative employment opportunities to the area where these people live, providing them an opportunity to maintain that rural residence that they prefer, yet to find employment that will give them the standard of living that they and we want them to have.

I have had occasion to visit a number of meetings in this area in connection with that program, and I want to congratulate the bankers and business men of the area who are giving not only support, but leadership and inspiration to these rural development programs. One of the good things about them, it seems to me, and I hope we can continue to keep it on that basis, is the fact that we are not looking to Washington for them. They are local programs devised to take advantage of local resources, both material and human, organized under the leadership and guidance of local people. I think it can be the answer over time, we hope not too long a time, to the problem of this big number of sub-marginal farmers. It affords

them the opportunity to get their units on a better economic basis, and if that not be possible, either due to limitations of physical resources or the capacity of the individual, it affords them opportunity for alternate employment within the area of their residence. In this way we can change some of these withering rural communities into revitalized, healthy, happy communities. It is one of the great programs that has been started in connection with this whole farm situation which has concerned us for so many years, and the people of this district are to be congratulated on the leadership that they are providing.

Now for a few moments I would like to talk briefly about another phase of System responsibility, money and credit policy as it relates to the economic growth, development, and stability of this country.

First, let me go afield. We are concerned today as we have never been before in the history of this country with international relations. Many of us may wish that we were not in our present position. We are somewhat in the position of the big brother of the family who finds himself with the responsibility of looking after the rest of the family. He didn't ask for the job but he shoulders it and attempts to meet that responsibility.

I think this country didn't ask for the responsibility that we hold in the family of nations today. But regardless of asking, we are in that position and we have been attempting to face that responsibility, particularly since the war, in many ways. There is one thing in connection with meeting that responsibility that I think we must not lose sight of. There has been a lot of talk of the danger of armed conflict and I don't minimize that for a moment. I don't minimize the necessity of adequate preparation against

such an eventuality, but I call your attention to the greater, or at least as great a threat, i.e., economic warfare, and to the importance of maintaining in this country a sound, vigorous economy.

We have become, in a large measure, the banker of the world and around the world these countries are looking to America, to this country, for a stable anchorage in the stability and the value of the American dollar. Over the past fifteen years, in our attempt to help other countries, we have also given those countries advice about fiscal and monetary responsibility and about adjusting their economies to a sound basis. Over the past months we have gone through somewhat of a recession and today we are facing a large deficit budget in our national fiscal program. The question is being raised in a number of countries as to whether or not the United States can take its own medicine, whether or not we are going to do what we have been telling them to do as they came to us for aid and for loans over the past fifteen years--whether we are going to show the fiscal responsibility that we have been advocating for others.

We have had first hand opportunity to check that sentiment. Our Chairman has just completed a rather extensive trip around the world, in which he has contacted a good many foreign central banks and repeatedly that question was put to him. We have also in recent weeks had several Governors of foreign central banks visit us there at the Board, and that question is on the lips of all of them. Are we going to take the medicine that we have been prescribing for the rest of the world?

And I say to you, as we realize the position that we hold in world affairs, a position which we cannot shrug, we can't lose sight of that

phase of the problem. What can we do about it? Inflation has been with us intermittently, almost continuously, with varying degrees of pressure, for some time.

As you all know, there are strong indications of a resurgent fear of inflation. As we contemplate this threat, I think it's important to consider two phases of inflation. One we might call the real inflation resulting from an actual shortage of goods and services. Many folks will say, "I don't see why you are concerned about inflation now with all of the still unutilized resources that we have." True, we are not operating many of our plants at capacity, we are not utilizing our full labor forces, we are not utilizing all of our resources, and so there shouldn't be an inflationary threat from that standpoint.

Nevertheless, we have in the most recent figures, a situation that we had and that many of us didn't recognize, three or four years ago when the general price level that looked fairly stable was actually made up of two divergent components. We base a lot of our actions on averages, but averages can be most misleading. We have now as in the earlier period, a drop in agricultural and food prices, masking a rise in other prices that gives us the very complacent feeling that this average is doing all right.

Those of us who are interested in agriculture, and in an area where agriculture is as important as it is here, should be doubly concerned about this but I also think that the entire country needs to be concerned. Even with unutilized resources, we are still getting price pressures that we need to be cognizant of and not lose sight of them in this blend of averages of divergent lines. While inflation due to actual shortages is not serious

at the moment, we must be alert to the possibility of its recurrence.

The other phase, more ephemeral and yet just as vicious in its effects, is the inflationary psychosis, the growing belief, in fact the conviction on the part of some people, that inflation is inevitable. Having accepted that philosophy, they begin to take steps which they hope will hedge against it. One evidence of that is what's happening in the stock market.

Apparently a large number of people--not only individual people, but organizations, fiduciaries if you please, responsible for trust funds, retirement funds, endowment funds of one kind or another, have been switching more and more of their funds from debt to equity securities. Why? Because of present earnings? No. Because of prospective improvement in earnings? Well, maybe, but I think they are discounting quite a ways ahead if they are. But mainly because of this feeling that inflation is inevitable and that we had better do some hedging against it.

Now, certainly if we look at the long range picture we know that over a long period of time we have had a gradual and sometimes not so gradual crawl in prices. But also we have had corrective periods. It is true that they seldom backed down very far before taking off on a new level. However, there were enough corrective periods so that there was always the discipline of the threat of that correction that kept us a little more sound in our long range judgments.

But consider what happens if we accept as inevitable the belief that we are going to continue to have a rising price level without reverses. The minute that we all decide that it is inevitable and begin to gauge our actions accordingly, inflation won't proceed at a gradual rate. It will

compound itself for every added person that decides to follow that line.

We have said many times about many things that "it can't happen here." Well, other folks have thought things couldn't happen but they did. Just as an illustration, I had the opportunity in 1937 to visit Germany and I saw the regimentation that was going on there at that time in the allocation of resources, telling folks what they could buy, where they could buy it, and what price they would pay for it. When I came back and reported this to some of my friends in the dairy industry in Texas, they all said "Ah, that can't happen here;" but it wasn't very long until we were under the same type of regimentation. It can happen and is apt to happen if inflation gets out of hand. We have got to be sure that it doesn't happen. We can't afford to accept the philosophy that inflation, even crawling inflation, is inevitable.

Folks say that we must have continuing growth. Sure we want continuing growth. We have before us a growing population which of itself is a partial insurance of a continuing growth, and the continuing growth of demand for personal goods and services. We also have under way an accelerating growth in technology and productivity.

Again let me refer for a moment to our agricultural problem. There has been a lot of talk in connection with agriculture about parity, parity of income for the farmer, and there are a lot of definitions for parity. I am not going to quibble with them and the many factors that enter into this parity idea, but there's one basic factor that applies whether it's in agriculture or in any other phase of our economy. We are concerned about equality of income as between individuals, as between industries, as be-

tween segments of our economy, and it all hinges on one thing--parity of productivity, the amount of usable goods and services that a man can produce with an hour of his labor, to exchange with his neighbor for an hour of his labor. The growth of our standard of living and the growth of our American economy has come as a result of this growth in productivity.

We are going to continue that. You don't stop people from imagining new things, developing new things, and offering them to the public, and as they do these new things will be put to use. You can't expect the farmer to be satisfied to stay with the mule and the walking cultivator when there's a four-row tractor outfit available to him. And if he does stay with it he can't produce, with an hour of his labor and this old mule, the crops that his neighbor can with the four-row tractor. It's just as inevitable as that. That's true with our whole economy and, if we are going to continue to advance, we must do it on a basis that provides confidence of stability for the future. This growth in productivity results basically from a substitution of capital for labor, capital invested in better equipment, better technology, better methods, and better materials, and capital comes primarily from somebody's savings.

How then are we going to get the necessary savings? Well, one requirement, if a man is going to save his money for future use as compared with current spending, is a reasonable assurance that that money is going to be worth when he wants it what it was when he decided to save it. He has got to have confidence in the future value of that money.

Second, if he is going to make that money available for somebody else to use, he is going to do it at a price. He is going to have to have incen-

tive to save this money and put it to use, just the same as you have to have incentive in terms of price to encourage a man to produce any of the things that make up our economy. We live in an incentive economy, we believe in an incentive economy, and we need an incentive for the accumulation and use of capital, even as we do for these other things.

Why am I saying that? Because we hear from time to time talk about the cost of money, about high rates of interest? Well, I am just as much opposed to usury as anyone else. I am just as much opposed to excessive prices for money as I am for the suit of clothes I have to buy or the groceries I eat every day. But comparatively, looking at what's happened over the years, the price of money is cheap. Nobody wants to see a higher price of money than is necessary, but when we talk about controlling the price of money we are up against as difficult a problem as we would have in trying to control the price of anything else that we use.

We accepted price ceilings during the war under the stimulus of war enthusiasm and patriotism. Do you think we could enforce price ceilings and rationing today? If you do, you are more optimistic than I am. Neither do I believe that we can enforce ceilings on the price of money. Money must find its level and its rate in the market place if we are going to meet the justifiable needs of the community. Again I say, if we are going to induce the saving of the funds that we need to provide the capital investment for the continuing growth of this economy together with the growing demands on government, there must be assurance of continuing value and there must be incentive in terms of return on the money.

Personally, I believe that as surely as I am standing here. Now,

there's another thing aside from money and credit policy that enters into this inflation problem. That is the fiscal problem of our government. I mentioned the fact that we have a tremendous budget at the present time, with what many consider an alarming deficit. We are a rich country; we can afford what we need from government in this country. If we need to spend--and this is up to the judgment of the Congress that studies our appropriation needs--if we need to spend the amount that is projected, we can afford to pay for it. Whether we need to spend it or not, if that's what we want to spend, which may include some things that we want but don't necessarily need, we can still afford it; but we have to face up to the problem that it has to be paid for sooner or later.

There are three ways that it can be paid for, as I see it, and it will be paid for in one of these three ways. It might be paid for by raising the taxes to balance the budget. That, again, is a matter for the judgment of the Congress. It might be paid for through borrowing by the government in one of two ways. If it can be borrowed from the savings of the country it need not be unduly inflationary, but if the people, for whatever reason, including lack of confidence as to what those government securities may be worth in the future, decide not to invest in them, not to use them as a repository for their savings, then it has to be done through bank credit and undue expansion of bank credit means in effect printing press money. That, my friends, is inflationary and that's the thing that we all need to be cognizant of and think about as we face the situation in front of us in the next year.

How are we going to provide for the needs that we expect to be serviced

or provided through government in such a way as to avoid the inflationary pressures that can be a greater threat than is the present armed threat from across the water? Whether we can or should spend the amount we are spending, the Congress is going to do what in their judgment seems best, based in part at least on what you and I and every other constituent tells them we want done, both in regard to spending and in regard to taxes.

I remember a Congressman from Texas writing a story for the local papers a few years ago. The good Congressman was getting letters and resolutions from every Chamber of Commerce in the district about cutting the budget--"let's get this government expenditure down"--and he was getting an equal number of resolutions to support this and that appropriation for items that they wanted in their district. So he wrote an open letter to the district to the effect that "I would be delighted to serve you if I knew which way you want to go. If you will tell me just which of these two things you want I'll try to do something about it."

I mention that, gentlemen, because sometimes we sit at home and talk about what Congress is spending or what they are not doing and if we just stop and think, and are honest about it, they are pretty much reflecting what we told them we wanted them to do. We still have right of franchise; and in no sense of criticism, but in the very nature of things, a Congressman expects to be elected. He can't do anything unless he is elected, and he is going to be responsive to the wishes of his constituents. I think it is what we expect in our government.

Why am I saying this? To bring back to you and to the citizens of this country the fact that, after all, when we talk about Uncle Sam doing this or

that, "U.S." does not refer to that legendary figure in the tall hat and striped pants. "U.S." still means, as it always has in Webster's book, "US - YOU AND I." No matter how indirect and remote the approach, the responsibility is still ours. As we reflect our thinking to our representatives, we put them in better position to consider more objectively the needs of the country and how they can best be met. If we decide to spend we can pay for it one way or another, but if it is done without subjecting ourselves to the discipline of sound fiscal policy, it can be tragic.

Now it would be incomplete to omit reference to the other phase that is a significant part of this inflationary problem. That is the granting of returns greater than productivity justifies--the demand of labor for wages in excess of productivity; the willingness of employers to accept such increases in the hope and belief, with some justification in recent years, I might add, that they can pass the cost on to somebody else.

I think, my friends, that it's time that all of us assume more responsibility as individual citizens in facing up to what this demand for return above what productivity will justify means. Certainly we want to see everybody raise their standard of living, but the mere fact you want it can't bring it about over a period of time unless you develop the things that earn it.

There is no permanent Santa Claus--gains have to be earned. I think it's time for all of us to face a little more realistically what these demands mean. Whether it be in excess costs or whether it be a use of higher costs as a basis for further pyramiding of excess prices, we all have a responsibility.

We were concerned about Sputnik. We were more than concerned, in some places we were panicked, that we had gotten behind and that something was going to blow up in the sky overnight. I think it's time for us to get concerned as individuals about some of the basic problems of our economy if we are going to hold our place and win the economic war that is threatening us, not only at home but around the world today.