

IS NOW THE TIME?

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by

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All of us in the Southeast, no matter where we live, have reason to be proud of the South's economic growth in the last several years. It always seems, however, that, no matter how good a figure we Southerners who do not live in Florida can put forward, it can be topped by anyone from Florida.

Floridians do have indeed a great deal of solid economic growth behind the economic and financial statistics that they like to quote. Any statistics on Florida that I can give you today, therefore, probably will do no more than confirm what you already believe about Florida's economic growth. If you don't believe that Florida's growth has been outstanding, I am sure the Florida State Chamber of Commerce will be glad to supply you with the statistical evidence.

The figures with which I am most familiar--those relating most directly to banking and finance--are one example. Deposits of all commercial banks in Florida now total about \$11.5 billion. No invidious comparison is meant when I state that the deposits of Florida banks equal the combined deposits of banks in Louisiana, Alabama, and Mississippi--three of the states in the six-state area served by the Federal Reserve Bank of Atlanta. Deposits of Florida banks indeed are greater than in either Georgia or Tennessee, the two other states which, together with Florida, make up the rest of the Sixth Federal Reserve District. Deposits at Florida banks have risen about 136 percent since

1960, compared with an 88-percent rise for the nation. Over the past decade, loans at Florida banks have risen about 1 1/2 times as fast as they have throughout the nation. Real estate loans at Florida banks rose 205 percent from 1960 to 1969, contrasting with a 113-percent increase nationally.

This growth in financial assets, of course, reflects the income growth of Florida, which in the past decade has risen at a rate 1.4 times as great as the national average.

Capital investment made much of this growth possible. The dollar value of construction contracts, for example, rose about 110 percent during the past ten years. In September of this year, construction contracts totaled \$317 million.

The figures I have cited are dollar figures. You and I know that a dollar is worth only what it can buy. Thus, it is only reminding you of the truth when I say that some of the growth implied by these dollar figures is fictitious. It merely reflects rising prices. We are fooling ourselves if we think that all of this represents real economic growth.

For example, let us look at the 110-percent increase in construction contracts in the past ten years. Actually, construction costs have risen about 50 percent during the same period. Thus, we should have to reduce this 110-percent figure by about half if we are to arrive at the actual bricks-and-mortar figures on construction. Since you know as well as I do that the purchasing power of the dollar is deteriorating seriously because of inflation, I do not need to elaborate on the misleading character of some of the other statistics I have just cited.

At one time not so long ago, we could look at our dollars and be reasonably sure that they would buy about the same amount of goods and services

as they had a few years before. This was characteristic of the period from about 1958 through 1964 when we were enjoying relatively stable prices. In 1965 these conditions changed, and prices began moving up at a far greater rate than could be described as creeping inflation. The value of the dollar is only 88 cents now compared with what it was worth in 1964 in terms of wholesale prices. Consumer prices have risen from 1964 to date by about 19 percent. Thus, the dollar is worth only 84 cents in terms of what consumers could buy before the present period of inflation began. If you want to measure economic growth in Florida, be sure that you take into account the loss in the purchasing power of the dollar with which you measure your economic progress.

There are, of course, better reasons for stopping inflation than merely to develop a better and more accurate yardstick for measuring economic growth. I could spend my time pointing to the economic injustices that inflation imposes upon the poor, the obstacles inflation places to curing our international balance-of-payments problem, and the impossibility of achieving long-run sustainable and orderly economic growth if inflation is allowed to continue indefinitely.

Any one of these results of inflation is important enough to justify our concern. Any one alone should have enough importance to make us undertake the job of stopping inflation. But the one I am going to dwell on today is, I believe, especially important to a rapidly growing area such as Florida. Florida's economic growth in the past has resulted in large part from heavy capital investment, and its future growth will continue to depend upon continued capital investment. Continued inflation is likely to destroy the elements that orderly, sustained capital investment requires.

One reason, of course, that Florida has developed economically is that there have been persons who have seen the economic opportunities its climate and its human and natural resources provide. They saw in the combination of resources an opportunity to produce the kinds of things that people wanted or to provide the services that people needed or desired. Growth in Florida's economy thus reflects the alertness of many persons to spot economic opportunities.

Some of you here today probably have the imagination, skill, and daring needed to perform such a function. I have no doubt that some of you have reaped the rewards for your skill in detecting economic opportunities and developing them. I am also sure that many others in Florida are also reaping the economic benefits that accrue to the general public from the resulting economic growth.

Something more than the ability to see visions and dream dreams is needed if economic development is to take place, however. Some visions of economic opportunities may, after being subjected to the hard, cold tests of a balanced judgment of the possibility of economic success, turn out to be only "pie in the sky." Someone must be able to sort out the impractical from the practical projects. What impels us to subject proposals to detailed scrutiny is the risk of failure if we do not appraise all projects carefully. We know we face a risk of loss or utter failure if in the final analysis our economic projects do not meet the demands of the public for goods and services at costs that will yield a profit.

The insidious thing about a continued high rate of inflation is that it dulls the sense of judgment required to separate worthwhile economic projects from worthless ones. It does so because, in the minds of many persons, inflation

makes every project a "sure thing." If you believe that prices are going to go up indefinitely at a rate of 5 or 10 percent, for example, you have the temptation of saying to yourself, "Well, even though there is some doubt about this, inflation will bail me out."

Now, historical experience has demonstrated that inflation does not always bail us out. Instead, it can lead us into making tremendous mistakes of economic judgment. The day eventually comes when the general public will tell you that they have had enough of whatever you have offered from your expanded plant or your new real estate development that you undertook without regard for the real economic facts of life. If you have skipped over such standard practices as making market surveys, getting leases before building projects, and the ordinary practices of prudent businessmen, your belief that inflation is going to persist has dulled your sense of judgment. Inflation will not bail you out. The results of your misjudgment will be a waste of resources upon projects that contribute nothing to public well-being.

But if one ingredient of economic growth is having men with vision and judgment who can recognize economic opportunities and take advantage of them, another ingredient is certainly the ability to obtain long-term capital investment funds. You cannot build buildings, buy machinery, grade land, put in water systems and sewers, and so on with vision alone. You need good hard cash to command the labor and materials. Normally, most of these funds come from investors who, directly or indirectly, are willing to place their savings in what they consider worthwhile projects for relatively long periods of time. They do this by channeling their funds into bond and mortgage investments, either on their own or through savings institutions. A continued high rate of inflation can well dry up this source of funds.

An astute investor, if he believes that prices are going to rise every year at 5 percent indefinitely, becomes very reluctant to tie up his funds for long periods. "What is the use," he is likely to ask himself, "of tying up my funds for ten years when they will be worth about half of what they are worth now in terms of what they will buy? Wouldn't I be better advised to put them some place where I can get them back in a relatively short time? Or wouldn't I be well advised to spend them now rather than save?" Thus, he may buy equities or shift his funds to short-term securities or not save at all.

When it comes to the individual saver, he, too, reasons that--if inflation is to be the way of life in the future--there is little point in entrusting his savings to financial institutions. The same sort of reasoning goes on in the minds of those who direct the policies of financial intermediaries.

This is a very simplified version of the effects of inflationary psychology on investment funds; but, no matter how elaborate the explanation, you arrive at the same conclusion. Continued inflation and the inflationary psychology accompanying it shifts funds away from the long-term mortgage and bond markets to the short-term market or away from the capital markets altogether.

In recent years, there has been a tremendous growth in the ability of Florida to finance its own capital expansion. The combined assets of Florida's commercial banks, insurance companies, savings and loan associations, and credit unions, for example, have more than doubled in the past decade. Nevertheless, you and I know that Florida's economic opportunities are so great that its financial resources must be supplemented by funds from outside the area to finance the long-term investments needed to continue the rapid rate of economic growth. This flow can be seriously reduced by continued inflation

and inflationary psychology. Inflation is incompatible with the orderly functioning of long-term credit markets so essential to Florida's economic growth.

Are some of you finding it hard or impossible to secure long-term capital funds to finance what you consider sound economic projects? Or do you know of other persons who are having that experience? Do you live in an area where the local government cannot sell its bonds at the ceiling interest rates? If you are like some of the people that I talk with, you are inclined to blame this situation on tight money or high interest rates. Actually, total funds being supplied the American economy have been increasing substantially even during the period of so-called restrictive monetary policy. Total net new lending in 1968, as a matter of fact, was 14 percent greater than in 1965. What has happened is that lenders have progressively become more reluctant to tie up their funds in long-term obligations. They are willing to do this only at rates high enough to compensate them for the expected erosion of their dollars because of inflation and if they can get "a piece of the action." On top of this, you are finding more and more persons competing with you for the relatively scarce long-term funds that are available because many borrowers have the idea that they can repay their debts with depreciated dollars. So long as inflation continues and so long as everyone expects it to continue, you are going to find it harder and harder to secure long-term capital investment funds, no matter how worthy the project.

Lower interest rates and a smoothly functioning money and capital market will not come until we have inflation under control. When that time comes, lenders will not have to demand a compensation for the expected depreciation of their dollars and borrowers will not be tempted to borrow merely because they think they can repay in depreciated dollars.

Thus, unless we can win the fight against inflation, Florida's economic growth is going to be seriously handicapped by the increased possibility that resources will be wasted on uneconomic projects, that costs will spiral, and that long-term capital investment funds will become scarcer. Florida's economic future is closely tied to the success of the current efforts to halt inflation.

The inflation we are now experiencing has been building up for about five years. It is, therefore, not one of these little aberrations in normal conditions that can be quickly and easily corrected by simple measures. The efforts to bring inflation under control are going to have to be sustained and affect all of us. The cure is not something that can be accomplished by monetary policy alone nor even by fiscal policy. The cure requires the efforts and support of businessmen and private individuals especially.

Current economic and financial information suggests that the past efforts we have made to control inflation are beginning to take effect. However, as I see it, the evidence available now is not conclusive enough to suggest that a complete cure is under way. We are now in a position of delicate balance, and there are many known and unknown future developments that could destroy all the progress we have made so far. I recognize as well as anyone that there is a risk in holding to a restrictive policy too long. But the greater risk at the moment is that, having once begun to get things under control, we may be tempted to relax too soon. Now is not the time to relax.

I am extremely impatient for the day when we can say, "The time has come to change." How soon that time will come will depend not only upon the fiscal and monetary policies that may be pursued but upon the general public's recognition of the necessity of bringing inflation under control and a willingness to support those who are charged with making the policies designed to do it.