

SUBSTANCE OF REMARKS
by
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As industrialists you are probably absorbed in the problem of price and wage relationships. It is a continuing problem but as we are painfully aware it is more difficult at one time than another. Just as the acute difficulties of today are a result of what has happened in the past, so the degree of difficulty tomorrow - and next year - will depend on what we do today.

Of this longer run problem I would like to discuss the important aspect with which the Savings Bond Committee of the State of Pennsylvania is concerned. It is the question of money supply. The origin of our present difficulties in this as in many other fields has been the war which cost us about \$380 billion. Where did this money come from? Forty per cent came from taxes, 36 per cent came from investors other than banks, and 24 per cent came from banks.

The taxes were a permanent transfer of purchasing power from the tax payer to the Government. That phase of the problem is over and leaves as a memento only tax receipts. Borrowing from nonbank investors is a temporary transfer of funds from individuals to the Government. Since the transfer is only temporary, individuals can at almost any time reclaim these funds by redemption. So long as individuals hold on to their bonds, however, they exert no inflationary pressure. The \$95 billion or 24 per cent of total expenditures obtained from banks did not represent merely a transfer of funds. It represented newly manufactured money and that money is still with us. As a result, we are confronted with an excessive supply of money relative to our production of goods and services.

How can balance be restored? Some people say it is purely a matter of production. I do not want to underemphasize the importance of production. If our output were running smoothly at, say, twice its present rate, we wouldn't have any problem of inflation. You are all familiar with the difficult technical problems involved in increasing production.

Increased production alone, unfortunately, will not solve the problem of inflation at this time for a number of reasons:

First, new production in any period of time carries with it its own purchasing power. As we step up production, we distribute the means to purchase it but we do not absorb the \$160 billion of liquid assets that we have accumulated during the war.

Second, our manufacturing processes take time. We pay wages to workers during the whole time during which we expand our operations, but the products do not become available for purchase until they are completed and at first they come out only in a trickle.

Third, many of our products are large items such as cars and houses. The consumers who buy such articles spend not only their whole income but much more -- either accumulated savings or new borrowings. Yet those who produce these large articles can spend the income they receive for producing them -- but for what?

Fourth, as we expand production we tend to borrow or to spend accumulated savings and thus add to the effective money supply.

For these and related reasons the attack on inflation cannot be limited to the production sector alone. It must be carried on along a wide front including taxation, debt management, monetary policy. Our interest tonight is in the sector of siphoning off current earnings and holding on to past savings.

The dangers confronting us in this area are evident on all sides. We have an interest not only generally as citizens but especially as industrialists to prevent a vicious cycle of inflation and possible bust. If people attempt to use their entire income as well as their accumulated savings to compete for the limited supply of goods, they will merely dissipate the value of their savings in bidding up prices. As you well know, an increase in prices is not the end of the process. The next step would be higher wages - and so on. If we travel this path, wage-price relationships will remain critical and acute for a long time to come.

On the other hand, if we save part of our present earnings and hold on to our accumulated savings, we shall apply brakes to the inflationary boom. We shall also have spending power available to fill in any dip that might otherwise occur later.

Here is an opportunity for leadership. Few things are more important today than to help siphon off into savings some of our excess spending power. The payroll savings plan is ideally suited to this purpose. There is, of course, an immediate temptation to put aside this plan because the war is over. It does not require even a second look, however, to see that the money created during the war is still with us. Self interest as well as the public interest will be served by continuing the plan and increasing efforts to secure widespread participation in it.

In this connection it is well to recall that the attitude of those who lead reflects itself in the success of any venture. Apathy or lack of personal interest on the part of management in the payroll savings plan may affect not only the willingness of workers to buy additional bonds but also the willingness to hold those they now own.

Limiting the supply of active money is the first consideration. But there are other excellent reasons for retaining and, if possible, extending the

plan. Systematic saving contributes to the direct welfare of employees. It helps to solve financial worries which are a major cause for inefficiency and accidents. It adds to future income. Dollars saved now will earn more dollars to buy more goods later on. The employee who saves regularly is a better citizen. He acquires a genuine personal interest in the nation's finances and in its stability. A wide distribution of bonds creates a cohesion and solidarity that can be achieved in no other way.

We are all interested in seeing the removal of direct controls established during the war. The longer they remain the greater the danger that they will become permanent. But we must remember that our economic system is on trial. Its successful functioning depends in large degree on the cooperation of management, workers, and the Government. A measure of that cooperation is the success of the payroll savings plan. Here is an excellent opportunity for local leadership.