

DEFENSE FOR INFLATION

Address by
DELOS C. JOHNS
President, Federal Reserve Bank of St. Louis

Before a
Town Meeting at Hodges Field, Memphis, Tennessee
Tuesday evening, June 5, 1951

DEFENSE FOR INFLATION

We who enjoy the blessed privilege of living, working and worshipping under the Stars and Stripes often find it difficult to contemplate the existence of actual danger to our nation and to our free way of life. We know we are strong. We have proven our ability to rise above great emergencies and to turn back dire threats. But the fact that we are strong and have never failed to win tends to dull our comprehension of danger and to make us complacent.

Within the memory of most of us, the United States has engaged, victoriously, in two world wars for the defense of human freedom. Now, less than a decade after the guns were stilled in the Second World War, we face the necessity again to marshal our strength, and keep it marshalled, in order to prevent an attack upon the free world by the "modern tyranny of communism". What we did in the two World Wars we can do again. We can produce the necessary goods, materials and supplies. We can mobilize the necessary military strength. We can, and we will. But is that all there is to our problem? Is our only danger an external one? Have we done the job if we merely discourage or repel the foreign aggressor?

Unfortunately, the answer to those questions is "no". We face another great threat to our freedom and our free institutions which is bred and born of our efforts to defend against foreign aggressors, but which grows and flourishes right here at home, under our very noses. This domestic foe is an insidious one because it is so close to us; because we, individually and collectively, either consciously or unconsciously, contribute to it and up to a point find a certain satisfaction in some of its effects. It is a dangerous foe because we complacently fail to be as prompt and vigorous in our defense against it as we are in our defense against aggressors overseas.

It is a foe which we must defeat, or we shall lose the very things for which we have fought, for which we are fighting, and for which we are willing to fight again.

I speak now of inflation, which can bring about in this country, as it has in others, the growth and spread of unrest upon which communism thrives. I speak of inflation, which can sabotage and scuttle the defense effort itself. The time is long overdue for us to get down to business and face the dangers of inflation squarely. Let me quote a short paragraph from a recently published study by the staff of the Joint Congressional Committee on the Economic Report:

"To take things easy, to temporize, to place lesser objectives first, is openly to court disaster by drifting into that debauchery of the currency which Lenin and Stalin have favored for decades as the most powerful and most subtle sixth column propelling capitalistic countries toward communism."

Inflation has knocked a lot of military airplanes out of the sky just as surely as if done by enemy anti-aircraft fire. Less than a week ago the Secretary of Defense said,

"The loss of guns and tanks and planes to creeping inflation is just as damaging as if they had been destroyed or captured by an unseen enemy."

What do these statements really mean to you? They mean that the defense program either is going to cost more than we thought, or that we will not get as many planes, tanks or guns as we had hoped to get. In either case who suffers? Everyone of us suffers because we either have to put up more money for the guns, tanks and planes we need, or get along

without some of them and be in greater danger. Inflation costs every American either in causing him to pay more for adequate defense or to live under greater exposure because he does not have adequate defense.

Inflation costs us all in many other ways also. We know that very few people ever beat the inflationary game. What many of us do not appreciate fully, however, is how much inflation costs us in lost efficiency and in potential unrest. These are costs we cannot afford to pay right now. We need our strength too much to dissipate it.

You all know that basically the condition which brings about inflation is a lack of balance between the supply of purchasing power, on the one hand, and the available supply of goods for which that purchasing power can be used, on the other hand. You all know that as the defense effort wheels into high gear, and continues in high gear for months to come, the imbalance between purchasing power and the supply of goods will grow and be magnified.

These are the essential ingredients of the inflationary pressures with which we must contend. Too much purchasing power, and not enough stuff to purchase. That's a simple statement of the case and everybody can understand it. What do we do about it? That is the question.

The answer is that there are several things to be done about it. An anti-inflationary program is neither a single thing nor a simple thing. It is composite and complex. Many people and many organizations and agencies have many different things to do. It does not behoove any one of us to sit down and complain that somebody else is not doing his job or pulling his share of the load unless we are quite sure that we ourselves are doing our part and pulling our own share of the load.

When problems arise in this country, it is our habit, I am afraid, to settle back and say, often without giving it much thought:

"There ought to be a law; the Government ought to do something about it."

The Government is doing something about inflation. It has moved to increase taxes. It has invoked restrictive credit policies. It has put into effect price, wage and material controls. Perhaps it should do more, but it is taking some action.

What are we as individuals doing? Most of us are trying to beat the inflation game and not doing very well at it. We don't like higher taxes; we don't like stricter credit terms. Workers don't like wage controls; sellers don't like price controls. We all want to control inflation - but at somebody else's expense. If we really want to control inflation we all have to pitch in and do something. And if we really want to have a free America, we had better try to preserve some freedom of action for ourselves. Asking for more Government controls won't lead to greater freedom.

The outstanding characteristics of the American economy are its freedom and the freedom of choice enjoyed by individual citizens. Therein lies the important difference between our economy and that of certain foreign countries. It is what we have developed in the wholesome atmosphere of American liberty; it is what we like; and we want to keep it as we like it. Conceding that in times of emergency and national danger some limitation of individual liberty and freedom of choice is inevitable, the problem is how to accomplish our objectives and at the same time minimize the impingement on individual liberty and freedom of choice.

Do not misunderstand me. I am not implying that our direct controls should be abandoned or the legal authority for them permitted to expire at this time. Under present conditions and those presently foreseeable, I firmly believe that certain direct controls, despite their unpalatability to Americans, have a place in our arsenal of anti-inflationary weapons. What I do say, however, with all the emphasis I can command, is that we should exert every effort to combat inflation on other fronts so that direct controls will be as little needed as possible and may be removed at the very first moment it is safe to do so. What are these other fronts? Let us go back to the equation of purchasing power and goods.

We have seen that the inflationary pressures we seek to combat result from an excessive supply of purchasing power in relation to the available supply of goods and services. Obviously a lack of balance in that relationship could be corrected, theoretically, by either reducing purchasing power or increasing production, or both. As a practical matter, at this time and in the foreseeable future, we have to work on the purchasing power side, for the perfectly clear reason that we shall be unable to do much, if anything, on the production side. To be sure, we will increase production - we are already doing so - but so much of our expanded production will go for defense purposes that we are forced to contemplate an actual reduction in the supply of civilian goods.

What does that mean? It means we want to reduce the amount of active purchasing power that is being used to take up available goods and services. How do we do that? We do it basically in three ways. We increase taxes - that sops up some of the excess purchasing power; we try to restrain credit - that keeps purchasing power from being expanded further; and we try to promote saving because that takes purchasing power out of the active class and reserves its use for a later date when more goods and services are

available. All of those things work on the money side of the money-goods equation. That is the only practical way to attack the basic source of inflation at the present time.

On the purchasing power side we must not lose sight of the fact that all production, including production for defense, generates purchasing power. Therefore, production for defense expands civilian purchasing power without at the same time expanding the supply of civilian goods. Thus the relationship between purchasing power and goods is thrown progressively further and further off balance as the defense program proceeds. And it therefore becomes clearer and clearer that something must be done to restore balance in that relationship by diverting purchasing power from civilian markets, just as the defense effort diverts goods from civilian markets.

I want to refer back, at this point, to my previous statement about our American habit of saying, "The Government should do something about it." Actually you know, and I know, that as a general rule the less the Government has to do about things, the better off we are. Or to put it another way, the more we do for ourselves and the less we depend on Government, the better off we are. What I am going to talk to you about now is something that we must do for ourselves in this fight against inflation. If we don't do it, the Government will have to do more, and I wager we won't like it.

Everybody will realize, after a bit of reflection, that purchasing power comes from three main sources: (1) current income; (2) use of past savings; and (3) use of credit. I have already talked about the first source; and I don't intend to talk much about the third source, credit. That subject is already receiving much attention. The banks and other leading institutions of the country are doing a tremendously good job of

fighting inflation on the credit front. What I want to talk to you about is savings.

It is perfectly clear to all that when past savings are taken down and thrown into the market along with extraordinarily high current income, the inflationary pressures become quite strong. It is equally clear that if past savings are held and a part of current income is put into savings, inflationary pressures are relieved. There is nothing obscure about the conclusion, therefore, that when control of inflation is a national objective, it is the plain duty of every citizen, insofar as he can, to hold on to his savings and add to them out of current income. This is what I had in mind a moment ago when I said that there is something we must do for ourselves in this fight against inflation. It seems to me just good common sense to do it, and I want to explain some of the reasons it seems so to me.

But first, perhaps we should inquire why some people are tempted not to save, and actually to spend past savings, in times like these. For one thing, they are tempted to buy, and perhaps to hoard, things they fear will become scarce. Obviously such a wholly self-centered motive ultimately defeats its own purpose by bringing about aggravated conditions of such severity and duration as to outweigh by far any assumed temporary advantage gained. But of greater significance, I suspect that distrust of the future value of money is the most frequent cause of dissaving and failure to save. There may be those in the sound of my voice who have said to themselves, "I will not save any part of these dollars in my pay envelope, but will spend them all now, because I'm not sure how much they will buy in the future." If I can accomplish nothing this evening but to point out some of the fallacies in that kind of thinking, I will consider my time well spent.

In the first place, if we but pause and think, we must realize that the best insurance on earth against further decline in the value of our dollars would be to stop this inflation dead in its tracks, and keep it stopped. A man who assumes that he can beat inflation by spending all he earns and refusing to save is as dead wrong as the man who seeks to put out a fire by dousing it with kerosene. You just don't put out a fire by adding highly inflammable fuel to it. Neither do you put out the fire of inflation by adding to the supply of purchasing power. The sensible procedure is to starve the fire by withholding the elements which make it burn.

Let's examine another fallacy in the thinking of the man who seeks to beat inflation by refusing to save. An old friend suggested this line to me only a few days ago. He said:

"You know, since U. S. Defense Bonds were first offered for sale, I have been buying a certain amount every payday - all I could squeeze out of my budget. It was a deliberate plan to pad out my income after I retire on a modest pension. With those bonds and our pension, my wife and I will be able to live comfortably in retirement. Every once in a while somebody volunteers to tell me that we are silly to deny ourselves things we would like to have in order to buy those bonds. They tell me I should spend the money now when I know what it will buy, instead of gambling on what it will buy when the bonds come due. That kind of talk puzzled me, and worried me, for a while. But I've got it figured out now, and here's what I tell them.

"I tell them they are the silly ones - not I. Because as the bonds mature 10, 12, 15 years from now, I'll have that many dollars to spend for the things I need and want - and no matter

how little the dollars will buy then, it will be that much more than people will have who aren't saving anything and aren't buying any Defense Bonds. And that isn't all. If I, and a lot of others like me, will save enough, buy enough Defense Bonds, and do our part to help whip this inflation thing, our dollars will buy a lot more when the bonds come due, and we'll sure have the laugh on the people who now call us silly."

I think my wise old friend came out with a good answer. The thing I like about his answer is that it contains just about the right mixture of good business at the personal level with a large, generous dose of clear-headed thinking in the public interest. What he knows, and what he said in his nice, easy way, is that any temporary personal advantage gained at the expense of the public good is bad business in the long run.

As you observe, I started out talking about saving in general and I wound up talking about Defense Bonds. That was the most natural transition in the world. But in this company and before this audience there is no need for me to extol the virtues of Defense Bonds as a medium of saving and investment. You know, as well as I, what they are and what they will do. The point I want to make and emphasize with all my energy is this: Saving a generous part of current income by investing it in U. S. Defense Bonds is the greatest and most effective contribution any private citizen can make in the fight against inflation. It is an attack on the problem of inflation at its very roots, because it operates on the purchasing power side of the equation of purchasing power and goods about which I have been talking. But more than that, and of at least equal significance, it is a manifestation of the will of the American people to help themselves in the fight against

inflation, thus minimizing the necessity for Government to conduct an anti-inflationary campaign by using weapons whose compatibility with our free institutions is open to serious question. If enough of us cooperate in such an endeavor, we can hold up our heads in future years and proudly remember that we stood off foreign aggressors and whipped inflation while doing it, without impairing the heritage in whose behalf the effort was made.

Tomorrow and in the days to come, when you go into your bank, or your paymaster's office, and say, "I want to buy U. S. Defense Bonds regularly from now on", I hope you will envision yourself as serving a notice upon all concerned - a notice that here is one American who knows what we are up against, both abroad and at home - a notice to all aggressors in all parts of the world that here is one American who is determined that our defense effort shall not fail for want of funds to finance it - a notice to all the world that in America the fight against inflation is everybody's business, and everybody is aware of his individual responsibility.

ooo0ooo