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Inflation: Enemy of Growth

Summary of Remarks

by

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When President Nixon announced his new economic Program he was calling upon business, labor, and government to unite in a direct attack on inflation. This was a bold and courageous step which recognized that the virus of inflation and inflationary psychology was threatening to destroy us, unless checked. My principal worry is that it comes very late, after many wage settlements in the automobile industry, the aluminum, copper, the railroad, and the steel industries, far in excess of any reasonable relationship to productivity, have already been consummated and general escalation was under way. However, all of us should do everything in our power to make the Program work. Since we are all involved, and a great deal of it depends on voluntary efforts, it is a major test of our democratic way of life.

Inflation is the enemy of sustainable growth, particularly where there is public expectation that the purchasing power of money will decline. And without growth, high levels of employment are almost impossible.

Events since 1965 have clearly demonstrated how inflation is producing feverish activity which impairs sound growth. Ultimately this will be the precursor of more unemployment than we can accept.

This is so, (1) because it undermines the country's position in international trade. Witness the devastating collapse of our balance of payments; (2) because it distorts and disrupts the saving-investment process and encourages excessive speculation. Witness the problems of our securities markets and the difficulties of the securities industry over the past several years; (3) because economic instability is heightened by inflation and high levels of activity are unsustainable when inflation is expected to prevail; and (4) because it fosters the misallocation of capital and undermines the quality of investment and managerial decisions on which growth is based.

Over recent years there has been a constant debate on the subject of inflation and a distinction has repeatedly been drawn between, on the one hand, the demand-pull type of inflation, that is, an inflation initiated by excessive demand coming from lax fiscal and monetary policies, and the cost-push type of inflation, in which the initiating impulse is a forced rise of wages and prices which spreads through the whole economy by persistent escalation. For a long time it has been argued that restrictive fiscal and monetary policies can cure a demand-pull inflation but cannot deal with the cost-push type. This is, in my judgment, a superficial conclusion. Nevertheless, the unwillingness of governments to accept even moderate amounts of short-time unemployment clearly indicates that however effective general fiscal and monetary policies might be they will not be persisted in long enough to achieve a goal of stability. Hence I welcome a new approach to dealing with the problem since the evidence is clear that under present conditions the old policies will not prevail nor will they be accepted.

My view of inflation is clear. To those who believe that full employment requires inflation, my answer is that unless inflation is restrained full employment is impossible. I happen to believe that at least relatively full employment on a sustainable basis is not only desirable but feasible and can be achieved with high levels of activity if we can find some way of deterring inflation and maintaining reasonable stability. The progress of the new economic program should be studied carefully to see whether the world can devise some means of providing the stability which will make possible sustainable economic growth, equilibrium in balance of payments, and virtually full employment. This is a worthwhile task and worthy of the best efforts of all of us.
