

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Statement for the Press

Summary of Remarks by  
Wm. McC. Martin, Jr., Chairman,  
Board of Governors of the Federal Reserve System,  
before the Bankers Club of Chicago,  
Chicago, Illinois,

For release in morning                      May 28, 1952.  
papers, Thursday, May 29.

The stability which has characterized our economy for the past twelve months in the face of continuing international tension, expanded defense spending, and substantial adjustments in the output of civilian goods is one of the most encouraging aspects in the long-run economic prospects for the Nation. It is doubtful whether we have ever made so many adjustments in the space of a single year during peacetime and still kept the economic ship on a comparatively even keel.

That it has been possible to achieve such stability can be attributed in large part to the prompt and effective application of fiscal and monetary, as well as direct, measures of restraint. Tax increases enacted by Congress in the fall of 1950 and again last summer have made possible a relative balance in Government expenditures and income thus far. In times like these when employment, production, and personal incomes are at peak levels, the importance of the pay-as-we-go principle cannot be overemphasized. Prudent trimming of Government expenditures should accompany the taxes, in order to avoid deficit financing.

So far as the Federal Reserve System is concerned, its primary efforts to offset inflationary pressures have been through discount and open market operations--the traditional tools of a reserve banking system. These actions were effectively supplemented by selective regulation of stock market, consumer instalment, and real estate credit, as well as by the Voluntary Credit Restraint Program. The lenders of the Nation have reason to take satisfaction in their contribution to the successful operation of this voluntary program which has recently been put on a standby basis.

Looking ahead, Chairman Martin said, there are some who feel that the danger of a resumption of the inflationary spiral is slight. With all of the uncertainties in the situation today, however, it is an extremely hazardous occupation to predict what will happen in the months ahead. Accordingly, credit and monetary instruments, which have proved effective in helping to maintain stability, should not be discarded. The Federal Reserve Board has recognized the need for flexibility in monetary and credit measures, particularly in the field of selective regulations, as evidenced by a series of actions during recent months. If there were to be another flare-up of inflationary pressures, the restraining instruments which have proved effective during the past year should again be made available.

Chairman Martin also called attention to the significant changes in the Government's financing program announced recently by the Secretary of the Treasury. All financial institutions, he said, have a responsibility

to see that the public has every opportunity to learn about these offerings and to appreciate the advantages which accrue to the buyers of the various types of new bonds. One of the most important tasks which bankers face in the next few months is to aid the efforts of the Treasury in obtaining the funds it needs from private, nonbanking sources.