

FOR RELEASE
Afternoon papers
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Summary of remarks
by
Wm. McC. Martin, Jr., Chairman
Board of Governors of the Federal Reserve System
before the Annual Convention of the
Investment Bankers Association of America

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Summary of Remarks

This year we have witnessed a succession of new records in the Nation's economy. New highs were reached in total national output, in personal income, in employment of manpower and of physical resources, and in demands for both public and private credit. The most striking, and encouraging, aspect of this achievement, is that it was possible to reach these high levels without further inflation. Prices have been generally stable. Wholesale prices of farm products and foods have eased while other wholesale prices and consumer prices have remained steady.

During 1952, monetary policies, together with debt management policies, played a significant although relatively inconspicuous role in these economic developments. The objective has been to restrain excessive monetary expansion while at the same time making possible the extensions of credit needed for defense, for civilian business operations and for normal growth in the economy. Too great an expansion of money and credit would have meant a resumption of inflationary pressures, too little would have handicapped business and development of the defense program.

Credit and other economic developments in the course of the year indicate that the monetary policies followed were appropriate.

While demands for credit were vigorous, the supply available from banks was limited. Some banks had to borrow from the Federal Reserve or from other banks which put them under pressure to restrict further credit expansion. Nonbank investors absorbed large amounts of mortgages and also of securities sold to raise new money during the year by Federal, State, and local Governments and by business corporations.

While total bank credit expanded, it was accompanied by an unusually large growth in savings deposits. The increase in demand deposits and currency--active elements in the money supply-- appears to bear a reasonable relationship to the over-all growth of the economy.

That this course of events was not inflationary is indicated by other economic developments. While the economy operated at a high level of activity, it appeared to be in a state of relative equilibrium. Some prices and costs tended to rise while others declined. Unemployment was at a record low level, but there was no serious labor shortage. Inventories were maintained or even reduced in some lines, and so far there has been little evidence of speculative tendencies in commodities or securities.

The generally favorable course of economic developments during recent months should not, however, be the cause for

complacency as to the future. Serious financial problems lie ahead. One of the most difficult with which to deal would arise if there should be a substantial deficit in the Federal budget. Another is involved in the recurrent task of refunding large amounts of maturing Government securities. The persistent rapid growth in private indebtedness, notably in consumer and mortgage debt, cannot be viewed with equanimity. These problems are of special concern to the Federal Reserve System, as they are to the financial community generally.

We all need to seek vigilantly for solutions that preserve freedom of choice and action in the market place. The test of the market is not only likely to be sounder than the dictates of administrators of public policy, but it is in conformity with the basic concepts of democratic institutions.