FOR RELEASE ON DELIVERY

(Approximately 10 a.m.,
March 27, 1953.

Summary of Remarks

by

Wm. McC. Martin, Jr., Chairman,
Board of Governors of the Federal Reserve System,

before the

American Cotton Manufacturers Institute Convention,
Palm Beach, Florida,
Friday morning,
March 27, 1953.

Summary of Remarks

A striking change distinguishes the last two years from earlier postwar periods. We have been achieving a number of new records--notably in total national output, in personal income, in employment of manpower and physical resources--and the remarkable economic fact is that these peaks have been reached without further inflation.

Another distinction marks the past twelve months. Since last Spring, expenditures for national security have been virtually on a plateau. The major force expanding economic activity over the last year has been private demands, particularly of consumers.

Today, the general economic situation continues to be strong, with production and incomes increasing moderately and prices, taken on the average, remaining relatively stable. But, of course, we can never afford to be complacent about the future because of a generally favorable economic development in the past.

In recent times, the American economy, moving more and more toward freedom of choice and action by all participants, has shown a great deal of flexibility--more than has been commonly recognized.

A good example of this flexibility is your own textile industry, an important segment of the American economy with more than a thousand units spreading over 27 States, normally employing more than a half-million people and turning out billions of dollars worth of goods each year.

After an early post-Korea upsurge, your industry went through a fairly pronounced recession and then, following a period of adjustments in production, prices, and inventories, your business has rebounded to score a rather substantial recovery since last Spring.

In many respects, the beginning of the general shift from a predominantly defense-stimulated economy to one based more largely on civilian demands has been reassuring. Besides the points already mentioned, productive capacity is in almost full use, unemployment is low, and the per capita level of consumption, that is, the standard of living, is rising.

In other respects, this shift has been less satisfactory. Business inventory accumulation rose from almost zero in the first half of 1952 to a seasonally adjusted annual rate of 8 billion dollars in the fourth quarter, before declining somewhat in January. Also, an increased proportion of consumer purchases of durable goods is being financed on credit. The rate at and the terms on which many people have been going into debt for houses, automobiles, appliances and other goods deserves and is getting more vigilant attention in the financial community.

The task of the Federal Reserve over the last couple of years 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 of the economy.

It is difficult to determine the monetary needs of an economy that is growing and yet facing, from time to time, risks of inflation and deflation. In trying to foster economic stability, we must seek to encourage a dynamic economy, one that stimulates enterprise and invention, that fosters technological advancement and, with it, greater productivity and a better standard of living.

One of the ways in which we can all contribute to that goal is to seek solutions to current problems that will preserve freedom of choice and action in the market place. Such freedom of choice is basic to the concept of democratic institutions. And we need it, too, because none of us is wise enough to do without it. The market's objective measures of the forces of supply and demand give business and government alike a more reliable guide to policy and action than the subjective judgment of any man in government, or in business either.

For the past two years discount and open market policy has been directed towards restricting bank credit and monetary expansion to the normal growth needs of the economy. The period has witnessed a remarkably smooth transition to reliance upon these basic instruments of monetary policy and upon the judgments of the market place in government debt management.

----O----