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Summary of Remarks

by

Wm. McC. Martin, Jr., Chairman,
Board of Governors of Federal Reserve System,
at the
100th Anniversary Observance
of
Rand McNally & Company,

Palmer House, Chicago, Illinois,
January 6, 1956.

When Mr. McNally invited me to take part in your centennial program, I accepted with anticipation as well as pleasure. On a great many previous journeys, your organization has helped me to understand where I was, and how to go on from there. I hope to gain further understanding along that line from being with you today.

Perhaps it would be proper for me, as a representative of the Federal Reserve System, to mention another centennial that is being observed in 1956. I refer to the centennial of the birth of President Wilson, who signed into law just 42 years and two weeks ago the Act creating the Federal Reserve System.

Centennial celebrations provide a great temptation to look backward into history and dwell upon past glories. You have, however, shut off that avenue of escape by choosing for your centennial assembly the vital and forward-looking theme, "The Challenge of a Changing World."

In the sphere of economics, the great challenge of our times is to prevent the recurrence of the zoom and crash sequence that has imperiled us in the past, and could destroy us in the future. It is a continuing challenge rather than a momentary one. Meeting it requires eternal vigilance rather than a single stroke. That is the heart of the difficulty. We must never be lulled into relaxing. We can never let down our guard.

Over the last hundred years, the American economy has experienced some 24 full turns of the business cycle, an average of approximately one complete rise-and-fall each four years. Most have been short and mild, like that of the 1952-1954 period. Others have been very long and extremely severe, like the great boom of the late 1920's and the great crash of the 1930's. But in every case, the pain of a drop has come only after the pleasure of a rise.

Our experience suggests strongly that the way to escape an economic hangover is to avoid the economic spree that goes before it. The 1930's especially gave us a lesson about the difficulty of curing a collapse that we might have better and more easily prevented. The difficulty, however, is not with knowing what to do, but with doing it. The tendency is to relax at the wrong time, to let our guard down just when we should be most on the alert. It is a very human tendency, but it is a dangerous one as well.

Throughout most of history, the great economic challenge confronting mankind has been to produce enough to go round, so that even the least fortunate could survive. In many parts of the world, that is still the challenge of today. In our country, however, that age-old challenge has largely been mastered, and we have been able to provide a generous measure of help to less fortunate people elsewhere on the globe.

The problem of producing enough for survival was one for which the American people were peculiarly well fitted. It was a problem that could be, and was, overcome by enormous energy, application, resourcefulness, and a determination to do more and better than any one had ever done before.

The American people had what it takes, and they still have what it takes to achieve our long-range economic goal of producing not mere subsistence, but a higher and higher standard of living for the community as a whole. The question remains, however, whether we are to make steady progress toward that goal, or perhaps suffer collapse along the way. Steady progress requires that besides the will to do at all times, we must show the will not to overdo at any time.

The job of the Federal Reserve System can perhaps be described, in very simple terms, as one of reinforcing the will not to overdo. In the effort to do that job, the System has had to go against the prevailing currents--to lean against the winds of both inflation and deflation to help keep us from being blown off our course.

Experience has demonstrated that combating inflation is never as popular as combating deflation, but it is fully as necessary. For inflation has always been the forerunner of deflation, as our history has repeatedly shown, and the excess of inflation has bred the excess of deflation.

Combating these economic extremes requires universal moderation and forbearance. The Federal Reserve's authority to deal with excesses in the field of money and credit enables it to help moderate swings in the economic cycle, but it cannot do the whole job. It can and will reinforce the will not to overdo. It cannot provide a substitute for that will.

If we depend upon the Federal Reserve, the Treasury and the Government to protect us from our own excesses, then, by the very nature of our free economy, we are doomed to difficulty and distress. If businessmen, bankers, your contemporaries in the business and financial world, stay on the sidelines, concerned only with making profits, letting the Government bear all of the responsibility and weight of guidance of the economy, we shall surely fail.

Never has the opportunity for financial and business statesmanship been greater than it is today. Leadership is a private quality directed toward a public purpose. The fact is that the Government isn't something apart and remote from you. It is you--all of us. If those responsible for major decisions in business, finance, labor and agriculture are irresponsible, Government can't compel you, short of moving in the direction of dictatorship, to be reasonable, or moderate, or prudent.