REMARKS BY

EUGENE R. BLACK

President, International Bank for Reconstruction and Development

PROBLEMS OF MONETARY AND FISCAL POLICY are of equal interest to the Bank and the Fund. For that reason, this afternoon's informal meeting is being held under the auspices of both institutions.

Now, these two fields are intimately linked, and both of them fall within the responsibility of our Governors. They affect the daily life of the people of every country. They affect their growth prospects and the rate at which this growth takes place.

Whether these prospects are called development or expansion—in other words, whether we consider countries which are underdeveloped or countries which are economically advanced—we must be struck by the similarity of some of the issues which confront all governments in the field of monetary and fiscal policy.

While the conventional mechanisms may be the same, the environment may well differ greatly. Some nations are poorer, and some are richer. The expressions that they give to their ambitions and to their concerns are not the same. Social reactions to particular financial measures vary from country to country.

In order to give us a picture of the problems involved, I think we are fortunate to have a panel here of outstanding personalities: Mr. William McChesney Martin, Chairman of the Board of the Federal Reserve System of the United States; Mr. H. V. R. Iengar, Governor of the Reserve Bank of India; Mr. Juan Pardo, Minister of Finance and Commerce of Peru; and Sir Dennis Robertson, Professor of Political Economy at Cambridge University.

STATEMENT BY

THE HON. WILLIAM McCHESNEY MARTIN, JR.

Chairman of the Board of Governors of the Federal Reserve System and Adviser to the United States Delegation to the Twelfth Annual Meeting

I WANT TO TELL ALL OF YOU how happy I am to be here. This is the twelfth meeting at which I have had the privilege of visiting with all of you. As each year comes, I enjoy these meetings more. I count it a great privilege to have served under President Black as the United States Executive Director of the International Bank, and so I feel right at home in these meetings.

I want to open my comments with a word of apology. I know that isn't good form, but when I accepted this assignment I did not realize that I was going to testify some twenty days in the United States Congress this summer and that most of you would have read almost every idea or thought that I had on the subject in one form or another. However, I did not run out on the assignment, as the result of that, because I welcome the opportunity to visit with you and to express again the same views that I have been expressing in one form or another for the past several months.

With my fellow panelists, and I want to say how privileged I am to be on the panel with the Governor of the Central Bank of India and the Finance Minister of Peru and our distinguished economist friend, Sir Dennis Robertson, I sat down to plan this panel, and it was decided that I would be the first speaker. This having been decided, I wondered how I should open this discussion today. We went almost immediately from our meeting to the Pan American Union, where the reception was being held for the delegations attending this meeting, and as I walked into the room a gentleman whom I did not recognize but who seemed to know me came over and grabbed my hand. He said, "I want to shake hands with you, Mr. Martin. I approve of the policies of the Federal Reserve System. I think they are fine, and a year ago I thought they were just terrible. I want to shake hands with you."

Well, I was pleased. I thought that there was a sinner who had been converted, and I wanted to stop and shake hands with this gentleman. But I couldn't get away from him. He kept pulling my elbow, and so I stepped aside for a minute and he said, "Have you seen what happened to the stock market today?"

I said, "Yes, it went down a little bit."

"Well," he says, "I just want to tell you you have been right so far, but if you don't ease money pretty quickly it will be too late and we will all be in the soup."

Well, I didn't make any comment. I just quietly faded away. I think all of you recognize that that incident illustrates pretty fairly some of our current problems on monetary and fiscal policy.

Also, in reviewing some of my correspondence today, I found a letter inviting me to address a group in the South. In it the writer says that he would like to have me talk for about 20 minutes and that I could choose my own subject, but they would like me to cover either inflation or deflation. Well, I think that too is a pretty fair commentary on the problem that we are dealing with and I think it is important that we bear in mind these general notions some people have that there is a power of magic in monetary and fiscal policy, an ability to pull levers and gadgets and order the economic course at will.

I want at this juncture to state my credo, because when you are talking about problems in this field, in which debate has been going on in the last several years, it seems to me people ought to have a chance to appreciate what your point of view is, what your objectives and your purposes are, and what your general philosophy is.

In this room we have gathered the responsible financial officials of most of the governments of the world, and starting with the address of the President of the United States there has been more or less—not entirely, but more or less—general agreement that the problem we have been dealing with in recent years has been a tendency for inflationary, pervasive inflationary pressure to develop and to expand. I would say that the agreement has been general; that the situation has been characterized, on the one hand, generally speaking, by prosperity, great activity, and great vitality, and on the other by pervasive inflationary pressures.

There are some who say that these two aspects of the current scene are not only related to each other but they are indissolubly linked; that we cannot enjoy the blessings of vital and active economic progress without incurring in some degree the ravages of inflation; that progressive erosion of the value of our savings is a necessary price—and they go on to say a not unreasonable price—that must be paid for economic progress.

To this point of view I want to enter a very firm dissent. I don't believe it. I don't believe that either the jobs or the internal growth and development purchased by inflation afford a firm basis for either sustained employment or development. I refuse to adopt what I consider the defeatist position that inflation is the alternative to unemployment or to take refuge in what I consider to be the cynical rationalization that the pursuit of sound fiscal and monetary policies is impossible in a democracy, impossible in a free society.

There are some people who point out that there

are many novel features in today's generalized inflationary pressures. Most of us are now experiencing pressures that stem from unduly heavy defense expenditures, from growth in population, from demands for higher wages, from widespread resort to so-called escalator clauses in collective bargaining contracts, and from the prevalence in the modern world of cost-plus contracts which act to accelerate operations of the inflationary spiral.

It is true that many of these factors complicate our problem, but that fact merely states, in my judgment, the dimensions of the problem. It in no way diminishes our duty, as the responsible financial officers of our respective governments, to devise and apply financial policies adequate to provide for sustainable expansion and growth and improved standards of living without inflation.

It is fundamental—and this I think, is the major point—that growth must be financed out of saving. It is fundamental in times like these that those of us who are responsible for the fiscal policies of our respective governments see to it that public finance does not dissipate the savings of the community, but rather contributes to them and fosters their continued growth. It is equally fundamental that those of us who are responsible for the formulation and execution of monetary policies see to it that created money does not substitute for savings in such a way as to contribute to an erosion of the purchasing power of the people.

That is my credo. I think it represents the thinking of the Federal Reserve System today, and I believe it is in consonance with the points of view that have been expressed by our President and by our Secretary of the Treasury.

I want to comment a little bit on the basic concepts.

First, I want to make the comment that from time to time people in smaller countries, less developed countries, are prone to say, "In a country like the United States you can't possibly know what our problems are; you can't possibly have a problem of inflation; you can't possibly worry, really, about the depreciation of your currency."

I want to point out that this is not so. We have had inflation in this country and in the last couple of years, the last 18 months, inflation has gotten a little bit ahead of us in this country.

Inflation is a cancer that strikes the rich and the poor. Inflation is a process which, once it gets under way, is very difficult to handle, because it envelops and develops and propels itself.

Think of these meetings and go back to 1946. At the end of the war, when we were meeting together, first at Savannah, and in the meetings that followed, there was general recognition of the problem of stimulating employment. Our feeling then was a worry about deflation, and all of us understand that inflation and deflation today are directly connected.

I remember very vividly hearing quite a discussion on the basis of the Employment Act of 1946, which is the law of the land in this country and to the objectives of which I fully subscribe.

At that particular time the worry was partly about the fact that from the time of the great depression on, we had had persistent difficulty and had not succeeded in really restoring the employment that we thought the world required. And with soldiers coming out of uniform on all hands, we were told that this problem was a problem that was right on our doorstep. So both parties in the United States joined in adopting our Employment Act.

The objectives of the Employment Act are objectives to which all countries subscribe. They are as sound as virtue itself. The problem lies in attaining those objectives.

Actually the problem of the last ten years, with the technological development, with the growth in population, with the widening horizons of people, the aspirations of all the peoples for a higher standard of living—the problem has not been one of creating jobs; the problem has been one of restraining inflation and seeing to it that the stability of existing jobs is not undermined in such a way that when the inevitable adjustments come from excesses there will not be two people unemployed whereas there would have been only one person unemployed

if it had not been for the preceding inflation. I think in substance that has been the problem of the last decade in most of the world. And I think that the world is coming to recognize that the resistance to inflation is really the battle against deflation.

Certainly in this country we have been confronted with the fact that inflation got a little bit ahead of us, for when you lose from one year to the next more than 10 billion dollars of your gross national product in an increase in prices without any additional goods and services being supplied to the people, I think any thinking person recognizes that you have a problem on your hands which requires some adjustment.

One of the most difficult problems we in the Federal Reserve are confronted with is this charge that we seek a recession, or that we are using our policies as a means of stifling growth, that we are not recognizing the legitimate necessity for growth and development, and that we are endeavoring to punish people for their misdeeds.

Nothing, of course, as you gentlemen know, could be further from the truth. I have testified repeatedly, and I reiterate it, that I don't want any recession, I don't want any decline in business. But at the same time that I say that, having pointed out the excesses that have already occurred, well—unless the world changes, if imprudence and improvidence are engaged in, then there will be some adjustment and some losses, just the same as if a child puts his hand into the fire, he will be burned.

Our economies are loss economies as well as profit economies, and I think we have to face up to that fact, and not assume that monetary policy or fiscal policy can be so ordered or so calculated or so planned that improvidence and imprudence can be eliminated and that we will find a way to develop the fountain of perpetual youth or pie in the sky.

If we are going to use this very sound concept of full employment—to which all of us subscribe—as a justification for continuous and persistent inflation, then it seems to me that it is our duty as responsible financial officers to point out that not only will we fail to achieve the growth and the higher standard of living of the peoples of the world which we are seeking, but also that we will, unquestionably, undermine some of the existing stability and growth in the world and actually retard our progress and our development. I don't think it is necessary that this happen. I think that with a little judicious common sense we can handle these problems.

In the United States we are doing what we can to face up to this problem. Practically everyone today recognizes that inflation is a problem. But there are some people who say the answer to inflation is to print more money and thereby reduce interest rates. I merely want to point out that I think all of us will realize as financial officers—regardless of whether we are charged with being individuals who support a doctrine of scarcity rather than a program of abundance and a rising standard of living—that if we permit ourselves to follow the siren song of printing more money and reducing interest rates in disregard of supply and demand factors, such a policy will do nothing except contribute to the erosion of our currency and undermine the saving and investment progress of all of us—undermine really the basis of our society. We will find at the end of the road not what we are promising the people and what we have within our power, in my judgement, to achieve for the people —a higher and a better standard of living—but we will find a lower standard of living and a good deal of misery and suffering that could have been avoided with a little prudence and common sense at the financial level.