

**For release at 11 A. M.
Central Standard Time
Wednesday, October 2, 1957**

Remarks by

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at the 38th Annual Meeting of the

Texas Mid-Continent Oil and Gas Association

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The amazing thing about the power that Texans exert in business affairs is that it seems to continue beyond the grave.

I have in mind particularly, at the moment, the swift and sweeping success of a multi-million dollar business in headgear, firearms, and assorted Americana inspired only a few years ago by Davy Crockett, more than a century after he perished in defense of the Alamo.

The Davy Crockett industry, if I may call it that, was tremendously active while it lasted. In its heyday, it served as a testimonial not only to the memory of a dead hero but also to the business enterprise of living and alert Americans, and I want to make only a couple of observations about it now.

First, it flourished when -- and because -- it captured the public's fancy and provided the public with something people were willing and able to buy at the price for which it was offered. No special assistance from the Government, or the Federal Reserve, entered into its success.

Second, it faded away when -- and because -- it could no longer hold the public's favor in our free markets, and the public preferred to use its money for other things. Neither the Government nor the Federal Reserve caused its fall, and neither could have stayed it.

The trouble with referring to the past is that someone always reminds you that things, of course, are different now.

Just a few days ago, in Washington, a gentleman whom I did not

recognize, but who seemed to know me, came up to me at a gathering 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, although a year ago I thought they were just terrible. I want to shake hands with you."

Well, I was pleased. I thought that here was a sinner who had been converted, and I stopped and shook hands. But I couldn't get away from him after that. He kept pulling my elbow, so I stepped aside with him 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 said, "I just want to tell you that you have been right so far, but if you don't ease money pretty quickly it will be too late and we'll all be in the soup."

I didn't make any comment. I just quietly faded away.

Please do not think I am asking you to feel sorry for me. If liberty is free choice, I have been enjoying quite a bit of it lately. Recently I had a letter inviting me to speak to another group, and the writer said they would like me to speak about 20 minutes, and that I could choose my own subject -- but they would like it to be either inflation or deflation.

It would be nice to be able to choose conditions, as well as topics, according to the heart's desire.

It has, for instance, been suggested a number of times that, if only the Federal Reserve's monetary policy were changed, we could have more new homes, more rapid construction of vitally needed schools, hospitals, and other community facilities, more new automobiles, and more new highways to relieve the traffic jams we have already.

Well, it would certainly be a fine world indeed if, by merely opening wider the spigot of credit, the Federal Reserve could increase the flow of goods and services sufficiently to meet all human wants at any time. If the Federal Reserve possessed such magic, I assure you it would use it. But, of course, there is no such magic, and all of us will be better off if we do not act as if there were.

Last week I attended some meetings in Washington which brought to our country the responsible financial officials of most of the governments of the world, and from start to finish there was a remarkable general agreement that the main economic problem we have had to deal with in recent years has been the tendency for inflationary pressures to develop and expand.

Over most of the world today, it was widely agreed, the economic situation is characterized generally on the one hand by great prosperity, great activity, and great vitality, and on the other by persistent inflationary pressures.

There are some who say that these two aspects of the current scene are not only related to each other but are indissolubly linked -- that blessings of vital and active economic progress cannot be enjoyed without

incurring in some degree the ravages of inflation; that a progressive erosion of the value of our savings is a necessary price, and a not unreasonable one, that must be paid for economic progress.

I wish to enter a firm dissent. I do not 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.

There are some people who point out that there are many novel features in today's generalized inflationary pressures. Most of the world is 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 modern times of cost-plus contracts which act to accelerate operations of the inflationary spiral.

It is true that many of these forces complicate our problem today, but that fact merely states the dimensions of the problem. It in no way diminishes the duty of those having responsibility to the public to devise and apply financial policies adequate to provide for sustainable expansion and growth and improved standards of living without inflation.

It is fundamental that growth must be financed out of saving. It

is fundamental in times like these that those responsible for governmental fiscal policies 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 basic 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, and I put it to officials of other countries at the gathering I mentioned as earnestly as I put it to you tonight.

There were, of course, people from the smaller or less developed countries who intimated that in a big country like the United States we couldn't possibly know what their problems were; that we couldn't possibly have a very worrisome problem of inflation, and that we couldn't really worry, very seriously, about the depreciation of the dollar.

I want, again in all earnestness, to point out that this is not so. We have had inflation in this country in the last couple of years, and inflation has gotten somewhat ahead of us -- as witness the rise that has occurred in the cost of living in every one of the last 12 months.

Inflation is a cancer that strikes the poor and the rich. It is a process which, once it gets under way, is very difficult to handle because it feeds on itself as it pursues its corrosive course.

A dozen years ago, as World War II moved to its end, there was general worry and fear about deflation, general apprehension that when

millions of men took off their uniforms there would be unemployment on a huge scale, and on all sides, because private business would be unequal to the task of providing the jobs they would need.

That fear of the future was in part rooted in the past, in the memory that, from the time of the great depression on, we had had persistent difficulty and insufficient success in overcoming mass unemployment and the hardships it, like inflation itself, inflicts on humanity.

That fear, though it proved groundless, was enough to bring about the Employment Act of 1946, pledging the Federal Government to do its utmost to keep employment, production, and purchasing power at consistently high levels.

I want to make it very clear that I subscribe to all the objectives of the Employment Act. Surely all Americans must do that. Both political parties joined in adopting the Act, and it is hard to imagine any one who questions its goals, for they are as sound as virtue itself. However, the problem today is not the goals of the Act, but how to attain and maintain them.

Over the years since 1946, with the technological development we have had, the growth in population, the increase in activity, and the aspiration of our people to better their standard of living, our problem has not been one of creating jobs. It has been the problem of restraining inflation -- of stabilizing the cost of living and of seeing to it that the stability of existing jobs, and the development of new job opportunities,

is not undermined by excesses that inevitably force their own corrections.

This country has not escaped excesses in its business affairs. In a single year, we have lost more than ten billion dollars of gross national product in an increase in prices, without any additional goods and services being supplied to the people in exchange. Most thinking people recognize developments like that create problems, for the future as well as the present.

The difficulties we in the Federal Reserve confront have not been lightened by charges that we seek a recession, or that we are trying to stifle growth, or that we are endeavoring to punish people for their misdeeds -- or perhaps all of these things put together, and more besides.

Nothing could be further from the truth. I have said it before, and I repeat it now: I don't want any recession. I don't want any decline in business. But, at the same time, I say also that, unless the world changes, when imprudence and improvidence occur -- and they have been instanced already -- there will be some adjustments and some losses in consequence, in the way burns will be suffered by a child who puts his hand into a fire. These consequences don't come about because some one "wants" them. They happen because no human agency is able to avert them after the initial mistakes have been made.

Our economy is a loss as well as a profit economy, as I suspect was discovered by those who were the last to stock up on Davy Crockett items. I think we have to face up to that fact, and to reject the illusion

that monetary or fiscal policy can be so ordered or so calculated or so planned that improvidence and imprudence can be eliminated, and a painless prosperity be achieved in perpetuity.

If we permit the very sound concept of full employment to be perverted into a justification for continuous and persistent inflation, then it seems to me that we will be embarking on a course that will defeat the very goals we seek, that will in truth retard our progress and our development.

I don't think that is necessary. I think that with a little judicious common sense we can handle these problems. I think practically everyone recognizes today that inflation is a problem, although there are differences over what to do about it -- and in some quarters a notion that the solution is to print still more money as a means of reducing interest rates. Well, I do not hold with that notion. I do not think it qualifies as common sense.

It may be that the American people can be so beguiled, but I for one do not believe it. I believe that people throughout the land are tired of having the cost of living go up and the purchasing power of their money go down. I believe that they are increasingly agreed that high employment can, and must, be accompanied by price stability; that they are increasingly aware that inflation can undermine their security as effectively as prolonged unemployment.

The sensible and sound way to check inflation, and thus to reduce interest rates, is to borrow less and save more -- not print money and seek to substitute debt for income. If we follow the latter course, further eroding our currency and undermining our economic security, we will find at the end of the road not what we have, in my judgment, the power to achieve -- a higher standard of living -- but a lower standard of living and a good deal of misery and suffering that could have been averted with a little prudence and common sense in the conduct of our financial affairs.

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