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Remarks by

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In the main entrance to the Federal Reserve Building in Washington, portraits in bronze commemorate two men who contributed, more than any others, to the founding of the Federal Reserve System.

They were, as it happens, two of Virginia's outstanding twentieth century leaders, Woodrow Wilson and Carter Glass. It is a source of some pride to those of us in the System that the Federal Reserve reflects not only their creative genius, but also their philosophy of public service.

Below the portrait of Senator Glass is an inscription, taken from the book he wrote about the founding of the Federal Reserve System, that we regard somewhat as a testament.

"... In the Federal Reserve Act," wrote Senator Glass, "we instituted a great and vital banking system, not merely to correct and cure periodical financial debauches, not simply indeed to aid the banking community alone, but to give vision and scope and security to commerce and amplify the opportunities as well as to increase the capabilities of our industrial life at home, and among foreign nations ..."

Below the portrait of President Wilson is a passage, taken from his first inaugural address, that also furnishes guidance to us even today. These are the words of Mr. Wilson: "... We shall

deal with our economic system as it is and as it may be modified, not as it might be if we had a clean sheet of paper to write upon. And step by step we shall make it what it should be, in the spirit of those who question their own wisdom and seek counsel and knowledge, not shallow self-satisfaction or the excitement of excursions whither they can not tell. . . . "

This country has in fact worked its way up to first rank among nations of the world by a process of evolution rather than revolution, by a step-by-step movement -- which is still in progress -- toward amplifying the opportunities and increasing the capabilities of the individual and therefore of the group.

Other countries have staked their destiny upon systems whereby an all-powerful few decide what's best for the many, and then use the whip of governing authority to drive their people to sacrifice their labor and lives in service to a government whose welfare is considered to stand separate from that of the people themselves.

Our country has placed its faith in a completely different way of life. Here we do not believe that the government should control the people, but that the people should control the government. That applies in economic as well as political and personal affairs.

In consequence, the role we have assigned the government in our economic life has been a supplementary rather than a dominant role. For the efficient use of economic resources to bring about a higher standard of life, we have relied mainly upon the enterprise and energy of free people working for better things for themselves, their families, and their communities.

It is obvious that this country has far surpassed all others in material progress while preserving an atmosphere of freedom that -- along with the American standard of living -- is the envy of the world. Yet, for all that, our choice of the way of life to follow is still a matter of faith.

Of course there are degrees of faith. Some people, stunned by the appearance of a strange moon in our skies, and forgetful that the way we have overcome great military perils in the past has been to regard momentary defeat as a spur to victorious effort, have been troubled by fear that liberty -- desirable as it is -- carries the price of inefficiency.

Woodrow Wilson had a stronger faith in democracy than that. He expressed it in these words: "The highest and best form of efficiency is the spontaneous cooperation of a free people." For my part, I am convinced that once aroused, as they are now, the American people will meet any threat that any foe can pose.

However, one of the great challenges we face, perhaps the greatest, is a good deal closer home than outer space. It is the challenge to prove that free societies can be wise enough and disciplined enough to master their economic and financial destinies: to prove ourselves capable of maintaining sustained economic growth, a high level of employment, and reasonable price stability.

This is the most difficult kind of challenge, for it is a continuing challenge. Meeting it requires constant effort -- and forbearance as well. The business process is a rational process, not a mystical or magical one, and it can be mastered and improved only by the exercise of reason, backed by a sense of perspective and the discipline of self-control.

We all have a tendency to say that these are the most difficult times the country has ever seen. It seems to me we are always in difficult times. Indeed, I can't remember a time in the last quarter of a century when you couldn't have gotten up and said, amid widespread agreement, that "these are the most difficult times we have ever had."

Chances are it has always been like that. When I was looking forward to visiting this historic city at your kind invitation, I became curious about the course of business in this district around the time when the Federal Reserve Bank of Richmond commenced

its operations toward the end of 1914.

In the early records of the Federal Reserve in Washington, I found the first annual report for this district by William Ingle, the Richmond Reserve Bank's first chairman and Federal Reserve Agent. As you may perhaps share my interest, I should like to read briefly from that report.

"During the last four months in 1914," the report said, "business of every nature in the district was in a most demoralized and in many cases a distressed condition. A great crop of cotton could not be sold at cost prices or properly financed until, with the establishment of the Reserve Banks in November, confidence was so measurably restored . . .

"It was not until foreign commerce had been reestablished" -- I am still quoting the report -- "and until general business had been radically readjusted to meet changed conditions that recoveries could be noted. At first haltingly, but gradually with more certainty, the situation improved, until now it is possible to report that business in practically all lines in the fifth district is nearly, and in some instances better than, normal.

"The cotton crop of 1915 is being sold at excellent prices. Grains have yielded gratifying returns. Manufacturers in almost every line are now busy. Labor is fully employed. Jobbers report generous sales and orders for the future to replenish diminished

stocks. Coal operators are busy. Railroads report greatly increased tonnage and correspondingly heavy earnings."

That is the finish of the report. Let me say right here that, after seeing the way it began, I was considerably relieved to find it had a happy ending. I suspect that back in 1915 the happy ending came as a jolt to some people who, at that time, as in all other times, had set their expectations firmly on the worst.

The fact of the matter is that, over the last century, the American economy has experienced some 24 or more full turns of the business cycle, making an average of one complete rise-and-fall about every four years. Of course, some of these movements have been shorter, and others much longer than the average.

In the 16 years since the attack on Pearl Harbor in December, 1941, the movement has been, with few exceptions, distinctly on the upside. All along, there have been some people who have thought it couldn't continue, and some who have thought it could never end. There was even a time, back in the war days, when many people thought it would never get started at all.

In 1945, as all of us in this audience will recall, there was great apprehension that the problem we were going to face, when the war was over and when millions of men took off their uniforms, would be unemployment on a huge scale, and on all sides, because private business would be unequal to providing jobs for these men.

The same apprehension pervaded Congressional debate on the Employment Act in 1946. The Act was adopted almost unanimously amidst a virtual unity of opinion that it would be necessary for the Government to act to create jobs and to see that the transition from military to civilian employment would not be attended by unemployment on the scale suffered in the depression.

Actually, subsequent developments showed that the problem was not one of creating jobs. The ingredients for growth, the technological advances, the opportunities for development in the entire Western world, in the period since the war, have been limitless -- and in my judgment still are. The real problem has been sustaining jobs, and holding open the door of opportunity.

Nearly everyone subscribes to the objectives of the Employment Act, but it does seem that we need to give more attention to certain related questions: What is the means of attaining high levels of employment? What is the means of sustaining jobs and leading us to a permanently higher standard of living?

In public discussion in connection with the Employment Act, you find many references to money as a medium of exchange, but almost none with respect to money as a standard of value. The reason is that almost all attention was focussed on the problem of deflation, and almost none on inflation.

In my judgment, the objectives of the Employment Act of 1946 can be attained only by wholehearted recognition on the part of all

of us that the fight against deflation begins with the fight against inflation, because it is the excesses of inflation that bring about deflation. That becomes clear when we examine the workings of the inflationary spiral.

Inflation is a process in which rising costs and prices mutually interact upon each other over time, with a spiral effect. The problem is one of broad general pressure on limited resources. In other words, aggregate demand becomes in excess of aggregate resources available at existing prices.

Taking the situation as a whole, as individuals, corporations, and governments proceed with their expenditure plans, buttressed by borrowed funds, they are in the position of attempting to bid the basic factors of production -- land, labor, and capital -- away from each other. In the process, the general level of costs and prices is inevitably pushed upward.

Once such a spiral is set in motion it has a strong tendency to feed upon itself. If prices generally are expected to rise, incentives to save and to lend are diminished and incentives to borrow and to spend are increased. Consumers who would normally be savers are encouraged to postpone saving and, instead, purchase goods of which they are not in immediate need. Businessmen, likewise, are encouraged to anticipate growth requirements for new plant and equipment that may also go well beyond immediate need.

Thus, spending is increased on both counts. But, with the economy already operating at high levels, further increases in spending are not matched by corresponding increases in production. Instead, the increased spending for goods and services tends to develop a spiral of mounting prices, wages, and costs.

Developments of this kind naturally cause serious dislocations and inequities. Furthermore, they produce even more serious effects when each increase brings with it an expectation of still other increases. If further inflation is expected, speculative commitments are encouraged and the pattern of investment and other spending-- the decisions on what kinds of things to buy, as well as how much of them -- undergo change in a way that threatens balanced growth.

Any inflation, even if it involves prices rising no faster than two per cent a year, inflicts losses upon millions of people, particularly pensioners and others having fixed incomes. Inflation does not simply take something away from one group of our population and give it to another group. It impairs the efficiency of productive enterprise on which our economic progress has been based. Universally, the standard of living is hurt, and countless people injured.

The injury does not stop with those who are dependent on annuities or pensions, or whose savings are in the form of bonds or life insurance contracts. The great majority of people who operate

their own businesses or farms, or own common stocks or real estate, or even those who have cost-of-living agreements whereby their wages will be raised, cannot escape the effects of speculative influences that accompany inflation and impair reliance upon business judgments and competitive efficiency.

The effect of inflation on employment can be stated in short and simple summary. As inflation sends costs up, it becomes increasingly hard to pass those costs along to the consumer in the form of price increases, and it becomes increasingly easy to misjudge or miscalculate the market. The first time that sales volume dips, a price-profit squeeze ensues. Many firms, simultaneously, move to dispose of high-cost inventories. A cutback in investment, income, and production results. In turn, the cutback in production leads to a cutback in employment.

That's the inexorable process that we have to fight against, at all times. That is, in fact, what the Federal Reserve has been fighting against in all its phases, combatting the cycle at every turn, and seeking to prevent it insofar as our modest part and powers give us the slightest chance to do so.

But make no mistake about this. There will never by any substitute for alert management by businessmen and workers of their own affairs.

Let me illustrate with a short and sad story I saw in a magazine recently about the failure of one of our millions of small business concerns. I am going to read it to you exactly as it was written.

"A small New York restaurant, after ten years of tidy profits, went bankrupt two weeks before Christmas," the magazine reported. "The proprietors wondered what hit them. This year (1957) costs kept leaping upward, while customers grumbled at every boost in price. Waitresses and counter men came and went in a steady stream. Service deteriorated. Volume began to shrink. Suddenly, the bills became overwhelming, and the restaurant was inextricably mired in debt."

Well, I don't know anything the Federal Reserve can do to save a situation like that. It looks to me like a situation in which more credit would have meant only a bigger failure. Just the same, I'm sorry for the proprietors of that business. Indeed, I hope they've gotten a good new start in something and that this time, wiser from experience, they make a lasting success of it.

I suppose that, in a country with more than four million business firms, a good many ventures come and go without leaving much impression on the public at large, but occasionally one comes along to leave a mark and perhaps a lesson as well.

In this class I would put the swift and sweeping success of a multi-million dollar business in headgear, firearms, and assorted articles inspired only a few years ago by David 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. Few who lived through it at its height will ever need it recalled in detail, and none of you here need be nervous about me on that score.

In its heyday, it served as a testimonial not only to 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.

I do not know, of course, what 1958 will bring on the whole. But of one thing I am completely sure: it will be a year of opportunity

for anyone smart enough and resourceful enough to offer the American public goods and services they want at the price the public will pay.

The Federal Reserve, today and every day, accepts a share of the responsibility we believe the government has in this country to keep open and amplify opportunities for the individual to better his lot and the lot of those he holds dear.

You can count on our continued efforts to foster credit conditions that will contribute to high levels of business and employment, maintain the purchasing power of our currency, and promote sustainable growth in the economy. But you cannot count on us to do the whole job by ourselves: business and employment do not live by credit alone.

I have faith in the American people, and in the self-governing capacity of free men. Neither the pursuit of shallow self-satisfaction nor the excitement of aimless excursions will divert us from our course. "In the spirit of those who question their own wisdom," as Mr. Wilson has counseled us, we will continue our advance.

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