Wm. McC. Martin--Substituting for Stokes

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THE SLUMP AND FEDERAL SPENDING

Uced Prices to Increase Public Buying and Production Called Recovery Route

What is troubling our economy now is some after-effects of inflation.

It is highly regrettable that we should have been brought to this pass, but it would be fruitless at this point to belabor the subject of what we might have done in the past to better the present.

The important thing now is to deal sanely with today's problems today--and to remember firmly that when the next economic turn comes, as assuredly it will, the best way to fight deflation is to fight the inflation that leads to it.

In coping with today's problems, it is essential that we recognize that prosperity is not brought about merely by more and more spending. Prosperity can come only from more efficient production and distribution of goods and services at prices that people are able and willing to pay.

Vital as it is to achieve recovery, it is even more vital to insure that it will be a recovery that lasts; a recovery that does not merely provide jobs, but lasting jobs. Hence the task before us is not that of finding artificial stimulants that will bring prosperity for one day and a collapse the next, but a task of laying the basis for a sound prosperity that will endure.

The Federal Reserve System is bending its efforts today to fostering credit conditions that will contribute to recovery and the maximum sustainable growth of our economy, as it was earlier when it was endeavoring to combat the inflationary fountainhead of today's troubles.

In recent months, the Federal Reserve, using every one of the powers it possesses--over discount rates, reserve requirements, margin requirements and open market operations--has operated to make credit more available and thus cheaper.

In the credit and capital markets, Federal Reserve actions have contributed to a marked easing that is illustrated most dramatically by the very sharp drop in market rates of interest--the sharpest drop for any comparable period of which I have knowledge.

This adjustment in credit and capital markets is helping to facilitate and cushion other adjustments in the economy, as well as to strengthen demands in important areas dependent on credit financing. It is thus helping to set the stage for recovery in activity and employment as soon as other developments contribute to revival.

Monetary policy by itself, however, cannot assure resumption of high-level employment and sustainable economic growth, although ready availability of credit at reasonable cost is an essential ingredient for recovery. It is incumbent upon business enterprises, financial institutions, and labor organizations, as well as Government generally, to adjust policies and programs to foster recovery.

We have been concerned, for example, at the decline in output and employment while prices generally have been maintained and some prices even have risen further. Currently, it may be noted, consumer prices reached a new high in January.

How soon recession is checked and recovery is resumed will be influenced by the rapidity with which economic corrections and adaptations are made in factors beyond the province of Federal Reserve policy; that is to say, in business pricing policies; selling practices, and productive efficiency; in wage bargaining; in various financing arrangements; and in the incentives to consumers to buy. In the past, price reductions during periods of contraction served to stimulate increased buying and output and thus to contribute to general recovery and expansion. Undoubtedly, lower prices now would prove to have expansive benefits for economic activity generally.

We all share the hope that recession will be moderate and short-lived, but it is not possible to be completely certain about the future course of economic activity. There is a range of views currently held regarding the duration and extent of this recession, and of the timing and vigor of the ensuing recovery. In my own view, the underlying strengths of the economy are many. The inflationary trends seem to have halted before creating maladjustments of such severity as to lead to a protracted period of liquidation and structural realignment in the economy. If needed readjustments are promptly made, the current recession may be moderate and short-lived, and healthy revival should set in, progressing to new records of economic performance and new high levels of national well being. But let us not be misled into vain hope this will come about without effort on the part of all of us, for much depends upon the speed with which needed readjustments are made.

Wm. McC. Martin, Jr.
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