

When people enter into these commitments they have some expectation, more or less explicit, about what is going to happen to prices. Even if everyone were now to expect and to anticipate inflation, it would not make the present inflation harmless. People are now living with commitments to pay or to receive money which they had undertaken in the expectation of much less inflation than has recently been occurring. These people are being hurt. If we should now make the recent rate of inflation permanent, their injury would continue for years to come.

Just who gains and who loses from inflation is hard to calculate. The gains and losses are to individuals and tend to offset each other in statistics about groups. Thus measures of impact based on displacements of broad groups—wage earners, older people, farmers—obscure and underestimate the hardships.

There are, however, certain things that can reasonably be said. An inflationary environment creates more problems for the “little fellow” than for the sophisticated investor. It may well pose more intractable problems for the small businessman than the large corporation.

And one thing we can confidently say. Those who have taken at face value the Government’s announced policy of avoiding inflation have lost in recent years. It is the Government’s responsibility to provide good money—money whose value is predictable. To provide good money the Government must bring its actions about inflation into line with its declarations. Since it is hardly conceivable that the Government would declare a policy of inflation, honest treatment of its citizens requires action to prevent inflation.

A second reason for concern with inflation, in addition to the inequities it works upon individuals, is the distortion it causes in the pattern of production and in business and financial decisions. The calculus of investment and lending decisions tends to become less discriminating as people come to assume that inflation will bail out even poor decisions. Perhaps the most important, and certainly the most visible, of these adverse effects is on housing. In a period of actual and anticipated inflation the demand for credit from all quarters is high. Individuals and businesses are eager to borrow funds, which they expect to repay later in dollars of less value, and savers become less interested in fixed-dollar assets. Interest rates, therefore, rise sharply, and flows of funds into institutions particularly important in financing homes are curtailed. We see this today. When the new administration assumed its responsibilities, yield rates on new FHA mortgages had pushed to the 7½ percent zone. These high rates were a direct consequence of the inflation that had been allowed to gather momentum.

Because of the inflation a mortgage must now be larger to buy the same house. Because of the impact of inflation on interest rates, the monthly payments on a \$20,000, 25-year mortgage must now be over 20 percent larger than three years earlier. Nor could these rates have been relieved by a more expansive Federal Reserve policy. This would have activated a further overheating of the economy, which would then have given another upward thrust to interest rates.

The third main reason for concern with inflation is its effect on the balance of payments and the international position of the dollar. While we shall discuss this in the later section of our statement, we must point out here that the serious deterioration in our trade balance largely