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By Summary Of Remarks

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Summary of Remarks

The pause, or period of hesitancy, in economic expansion is over. Economic statistics are now, day by day, confirming forecasts of mounting demands, and upward pressures on costs and prices are becoming more obvious. Public policies clearly must now be directed to maintaining growth within the limits of available resources.

As to the mix of policies, the 1966 experience is a case study of the distortions that develop when monetary policy bears the major burden of restraint, and developments in 1967 suggest that the fallout from these distortions lasts considerably longer than the original pressures. Both borrowers and lenders have evidenced a pattern of reaction reflecting the strains of the summer of 1966; both have made strenuous efforts to insure themselves as much as possible against future financial restraint and to restructure their distorted financial positions. Borrowers have increased demands tremendously on long-term credit markets while lenders have attempted to rebuild portfolio liquidity; the result has been upward pressures on long-term rates to, or in some areas above, last year's record highs.

To avoid repetition of economic and financial difficulties experienced in 1966 as a result of putting too much of the burden of restraint on monetary policy, and to keep economic growth sustainable, it is imperative that the President's tax proposals receive prompt Congressional approval. For many years now there has been an understanding of the need for a proper mix of monetary and fiscal policies in order to best achieve our continuing economic goals. Each year our comprehension increases regarding the effects of the different tools that each of these two public policy vehicles has available. There are still gaps in our knowledge, to be sure, but there are times--and I think this is one--when the choices available require no particular subtlety to apply the right tools to sustain and develop a viable, expanding economy. This is a time, in my view, when our choices are obvious and our options few: fiscal restraint is needed and needed promptly.

Another compelling reason for fiscal restraint at this juncture is the continuing balance of payments problem of the United States, in which relative price stability is essential to any long-run solution. Here it is necessary to warn against anyone misconceiving the recent accord on international monetary reform--i.e., the agreement reached among the Finance Ministers and Central Bank Governors of the ten leading industrial countries in London just two weeks ago--as a solution to our balance of payments problem. In plain fact there is no such connection; instead the agreement represents the fruition of our genuine interest in, and efforts toward, reserve creation as a fundamental improvement necessary for the international monetary system, not as a crutch for the United States. We have been searching for ways and means of deliberately creating, for the first time, an international money because the present sources of increases in international reserves--gold and reserve currencies--are clearly not going to be adequate over the years ahead. Global reserve shortages could have deflationary effects and lead to restrictive external policies that could only serve to reduce growth of world trade and of the world economy. The world needs the assurance which the London agreement affords that the traditional reserve assets, gold and reserve currencies, can and will be supplemented by a new reserve asset, in the form of a special drawing right in the IMF, as needed to meet future requirements.

The real significance of the London agreement, for the United States and for the international monetary system, is twofold: first, that machinery will be put into place for creating a new reserve asset that can function as a full supplement to gold and foreign exchange; and second, that such new machinery builds strongly and soundly on the key features of the present international monetary system, including the existing price of gold and fixed exchange rates. Thus the agreement truly represents one of the milestones which mark the evolutionary progress of the world economy.