



FEDERAL RESERVE

press release

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Remarks of Wm. McC. Martin, Jr., Chairman,
Board of Governors of the Federal Reserve System,
to representatives of bank and nonbank financial
institutions with respect to the President's
Balance of Payments Program

The Board has invited you here so that we can present in more detail the part the Federal Reserve and the banking system as a whole have to play in helping to achieve the very important balance of payments objectives that President Johnson talked about to you earlier today.

Since you are, for the most part, bankers, let me speak in bankers' terms. As a reserve currency country, the United States occupies a financial position very similar to that of a bank. On the whole, the position is a good one, like that of a very solvent bank, with an enviable capital structure. Over-all, we have international assets amounting to about \$96 billion. Our total liabilities amount to only \$56 billion, leaving an equity position of \$40 billion, or a ratio of more than 40 per cent. Our reserve position also is strong. We have gold reserves of \$15 billion, against liquid claims of about \$32 billion, the equivalent of almost 50¢ of cash in the till for every dollar of "demand" deposits.

On the other hand, we are having a problem that is, basically, one of secondary liquidity. Our loans and investments have increased more rapidly than has the desire of others to hold with us "deposits" or dollar claims. We are therefore faced with "adverse clearing balances," and the international liquidity position of our country has worsened, particularly in the period since 1957. Over the seven years ending with 1964, our monetary reserves declined by \$7 billion and our net position in the International Monetary Fund by \$1 billion. At the same time, our short-term liabilities to foreign central banks and governments--liabilities we must always be ready to redeem in gold on demand--rose more than \$6 billion, while our liquid liabilities to private foreigners rose by nearly \$5 billion.

In the circumstances we, like a bank faced with a similar problem, can do either or both of two things. We can try to increase the willingness of depositors to leave money with us by offering higher interest rates and other inducements, or we can cut back, for the time being, on our lending and investing, or we can do both. We have already done quite a bit to enhance rate and other attractions. Since 1960, U. S. bill rates have moved up from around 2.25 per cent to nearly 4 per cent, and rates paid by commercial banks on foreign deposits and other short-term rates

have increased correspondingly. We have offered foreign central banks the so-called "Roosa Bonds," payable in foreign currencies, to afford them protection against any fluctuation in the dollar's exchange rate.

When it comes to lending and investing, however, we have not so far made any move toward curtailment. The fact is our loans and investments, already at a high level following a long climb, began showing a further marked rise a few months ago. It is a sharp but necessary reduction in the elevation of this rate which the President now proposes, and which we should like to work with you to effect. I think you will all agree that this course would be a sound and prudent one for any bank to follow in similar circumstances.

It is in the interest of all of us to explore new means of dealing with the problem before us so that we can find a correction that is reasonable and workable and that will not start us down a path whose course and end we cannot foresee. Perhaps there is no form of action feasible, including that the Administration is urging, that is without pitfalls. The President's balance of payment proposals, on the other hand, have been chosen in part because they will not impinge severely on the functions of the market as the final regulator of business, and also because they will not burden unduly our domestic prosperity and growth nor be disruptive of international trade.

Under the President's new program, the banks are being asked to assume a central responsibility for restraint. This has not been an arbitrary decision. It necessarily follows from the relationship that bank lending has to the persistent redundancy of dollars in international markets and the consequent deterioration in our international liquidity.

I'm sure that all of you here will agree with me that unless we preserve the integrity and strength of the dollar throughout the world we cannot possibly sustain the prosperous economies here and abroad that depend upon the dollar and the trade it finances. And I'm also sure that we can count upon your aid in our efforts to see to it that confidence in the dollar is maintained the world over.

Let us now come down to some particulars of what the President's program means for your institutions. For that, I am going to turn the meeting over to Governor J. L. Robertson, to whom the Board has delegated responsibility for the day-to-day conduct of our program.