

December 17, 1962

In the question and answer period following his speech to the Economic Club of New York, on December 14, 1962, President Kennedy twice made reference to the Federal Reserve.

The questions and answers in which these references occurred appeared in text form as follows, in the Wall Street Journal of December 17:

Stimulate Economy Without Inflation

Q. Mr. President, in view of the prospect for a deficit in any event, and a fairly large one if taxes are reduced, is it part of the Administration's plan to finance a major part of that deficit outside the banking system in order to reduce the threat of monetary inflation?

The President: That will be a judgment which is primarily that of Mr. Martin (chairman of the Federal Reserve Board) and the Federal Reserve. He has commented on that to a degree before the Joint Committee (House-Senate Joint Economic Committee) this year; he is concerned about the prospect of inflation, because of course it affects us adversely, and also because it affects the balance of payments. I would hope, however, and I am sure that he will agree, that he will--any deficit which has to be financed will be financed in a way which will be the maximum degree possible to stimulate the economy without increasing the prospect of another inflationary or speculative spiral. So it is a fine adjustment which Mr. Martin will make, but I'm sure he will be as concerned as all of us are to get the benefit such as it may be out of the deficit, and also at the same time keep and use our monetary tools wisely enough to keep matters in control. His judgment will be, because of the Federal Reserve law, final.

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Easy Money Stimulation

Q. Mr. President, will it be possible and desirable to use a little easy money stimulation as well as tax reduction?

The President: Well, I think there is a good supply of credit. I think the Federal Reserve Board has attempted to keep credit as free as it could, and the supply of money has been increased with the growth of the economy. I think it would be very difficult to keep it easier than it now is, without having the short-term funds pour out at a higher rate than they are. After all, we

have seen when Canada put its interest rates up, I think as high as 7%, though it has dropped them now, it affected the flow of capital here. In October, we had several cases of major investments using our markets because of our interest rates. The fact of the matter is that I am not sure that we would get much stimulation out of the economy, but I don't see how we could possibly afford easier money than we now have, and still not have a hemorrhage at our balance of payments.

I think we have a major problem to balance off the use of monetary policy here at home affecting our balance of payments abroad, and also that is one of the good arguments, and as a matter of fact I think that we can make the case which is almost unanimously made in Europe, that the United States monetary policy in some ways is too loose, while our fiscal policy is too tight. And it is for that reason that the international banks in Europe and others have suggested that the reverse would be more appropriate. I think we should attempt to keep monetary policy about where it is, try to liberalize fiscal policy, for the reasons that I have given tonight, but I don't see how we could possibly go any further in the direction of easier credit, while we have a balance of payments which is against us by over \$2.5 billion a year.

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