

1. One can, of course, control only what one says--not what may be attributed to him or inferred from it.

2. In my entire period of service as Chairman of the Federal Reserve, I have studiously avoided forecasting or predicting the future course of monetary policy or of interest rates, although from time to time subject to some pressure before committees of Congress to make such predictions. I believe this is a sound policy and I would not like jto deviate from it.

3. ~~I believe~~ the quotation from Miss Porter's letter in Mr. Heller's memorandum refers to a part of my testimony before the Senate Finance Committee on December 10, 1963, when I appeared in support of the tax bill. At that time we were contemplating that the deficit for fiscal 1965, with the tax cut, might amount to as much as \$10 billion. Specifically, Senator Dirksen asked me, "Now, do you believe that we can manage these deficits?" I replied, "I do. I think we can do it but we must always face up to the fact

that this may lead to higher interest rates. We do not want them to rise inordinately, and I still hold to my view that what we want is as low a long-term interest rate as we can have without inflation, but we have no other mechanism than the interest rate to bring saving and investment in equilibrium."

4. Since that testimony the budgetary outlook has, of course, changed dramatically. We are not confronted with a deficit only half as large as the one then contemplated. While this still "may lead to higher interest rates," both the likelihood and the extent of any increase are substantially reduced. This is one of the great advantages of the budgetary savings that you have proposed that will become more evident as its full significance is more widely appreciated.

5. We all agree that "money will not manage itself" and that it is, in fact, the task of the Federal Reserve to manage it. It does not follow from this, however, that acting responsibly --

or even irresponsibly -- that the "Fed can determine interest rates."

6. What the Fed can and does do is to control the volume of reserves available to the banking system. This, in turn, influences the volume of bank credit and money that the banking system can create, which is one important factor, among others, in the interplay of forces that determine interest rates. Within limits, the marginal influence of the Federal Reserve is very important, but it is not determinative in any absolute sense.

7. Monetary policy should not, and in fact cannot, be focused solely on interest rate objectives -- any more than it can ignore them completely as some economists argue that it should.

8. The immediate goal of monetary policy should be to provide the reserves needed to support a rate of growth in bank credit and money which will foster stable economic growth.

(a) This must take into account the international position of the dollar -- for a collapse of the dollar as a reserve currency would certainly make havoc of our efforts to achieve stable growth.

(b) It must take into account price developments and prospects for inflation, or the widespread expectation of inflation would do great damage to healthy growth.

(c) It must surely also take into account interest rates and credit availability, to be certain that, without doing violence to the other essential components of stable growth it is providing the maximum possible stimulus to the investment expenditures which are the basis of future growth.

(d) It cannot ignore, as much as it might like to do so, the soundness of the individual obligations that go to make up the growing total of public and private debt, for even a sizeable minority of unsound loans could bring the whole structure down around our ears.

(e) It must also be concerned with current output and sales, even though its influence in this area may be small.

be readily available to move goods to market and

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and from the market to the hands of the consumer on terms  
and at rates that are as reasonable as possible.

9. All these things, and many others, must be constantly weighed and balanced by the monetary authority, wherever it may be located. We cannot produce, through monetary policy alone, high or low interest rates, balance of payments surpluses or deficits, rising or falling prices, more or less employment, or a sound or unsound financial structure. We do exert some influence on all these things, hopefully in the right direction -- that of sound and sustainable expansion.

10. I believe that the record of the administration and of the Federal Reserve in this period of expansion is an excellent one. Whether such moderation of credit ease as has occurred in the last year was motivated by our concern for the balance of payments or balanced growth in the domestic economy, the fact is that ample credit has been available to finance an expansion in GNP which was substantially larger than most private and Government observers

anticipated a year ago. Credit remains readily available for all reasonable needs. Mortgage interest rates, probably the most important rate from the point of view of the general public and the impact on over-all economic activity, are below a year ago, and for that matter, corporate and municipal rates are still below the levels they reached in 1961, the first year of recovery.