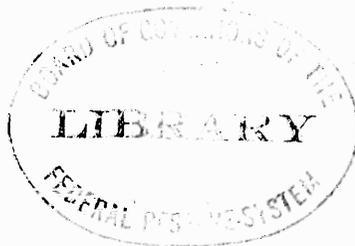


OUR NEW POSITION IN THE WORLD

Remarks by Governor King  
at the dinner held in connection with the  
joint meeting of the Boards of Directors of the  
Federal Reserve Bank of Cleveland and its branches

Erie, Pennsylvania

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## OUR NEW POSITION IN THE WORLD

I am happy to be with you tonight. As a member of the Board of Governors of the Federal Reserve System, I am kept quite busy with many administrative duties, but I believe it is equally important to keep old contacts alive and make new ones. Many decisions are made in Washington, but the thinking that produces such decisions is going on all over America before it ever reaches Washington. As a consequence, I always feel it is a privilege to have an opportunity to leave the city on the Potomac for a visit to real grass-roots America. Many who inhabit the beautiful city of Washington believe that it is the fount of true wisdom, but in this I do not agree. The great wisdom of America is scattered across the entire United States and no section has a monopoly on wisdom.

Having said that I came here hoping to learn, I am now in the awkward position of being expected to talk when I would prefer to listen. I remember the adage that one of Washington's political sages uses to help orient young Congressmen. He says, "When you're talking, you ain't learnin'." Believing that there is a good deal of truth in this statement, I will now proceed to talk, but I do promise you that it will not be lengthy in the hope that my return to silence will afford me an opportunity to learn from you.

A question that keeps coming back to me again and again is: How will this great country of ours respond to its new position in the world? I say new position because we have found ourselves in recent years to be a nation which has developed the habit of sending more of

our funds abroad than we take in from the rest of the world. Of course, this is partly a result of our assistance to foreign nations in the development of their economies subsequent to World War II. We have helped them become productive and prosperous because we know that weak allies are almost as bad as none. But now that our allies in the cause of freedom and competitive enterprise are strong, our own position in world trade is challenged by these same allies. They are also challenging our position as reserve banker to the free world. This threat to our power and prestige has abated at the present time. While it would be nice if it has gone away forever, perhaps a wiser choice of words would be to say that this threat has merely been postponed. We all hope that it has gone away forever, But, do we dare take unnecessary chances? I hope not, because the stakes are high. Fate is working hard now to create a new and great profile in courage. We should hope the appointment for the sitting will be kept; for, indeed, the fate of the great American vision of freedom might hinge on the courage of one man.

It should be obvious that we should do nothing -- and I repeat, nothing -- to artificially push prices of anything higher than they are at present. And yet Congress is seriously considering an increase in the minimum wage and extension of coverage to several million not presently covered. Even though some of us approve many aspects of the social revolution that has occurred in the United States in the last 30 years, I nevertheless believe that such legislation at this point is unnecessary gambling with our future. If all of the results could be said to be good, then perhaps such a gamble might have better hopes

of success than at the present time when a side result is surely to be considerably more unemployment in certain sections of the United States.

There really aren't many alternative courses of action, as I see the matter. Either we assume the burden that goes with responsibility or we decide that responsibility just isn't for us and, accordingly, we abdicate our position in the world. The latter is an unpleasant thought, but it is one that we must contemplate.

I heard a distinguished historian speak a few days ago, and he said that what is different about our position in the world today is that we are closer to each of these possibilities than we ever have been before. Time will eventually require a decision from us. The world will probably allow us adequate time to make a decision, but I doubt that it will permit us to avoid one.

My father has demonstrated to me many times the advantages of being deliberate and slow in decision-making. And I have seen the passage of time solve many problems much better than man could have done in a sense of urgency. But the nature of some problems is such that they become more aggravated by timidity and hesitation. Of course, the problem I refer to is our perennial deficit in our balance of payments. Perhaps it will just go away if we do no more in attacking it than we are doing today. I do not believe it will. Until we take more positive steps than we are at present, it is difficult to see how we can launch into a period of high-level, sustainable growth. As long as our future course is in doubt, the economic wheels will probably have difficulty in reaching full speed.

As most of you probably know, the Federal Reserve System cannot solve this pressing problem. While we can be helpful, the problem is one which all our people must solve together. Reverting to my earlier affirmation of faith in the good common sense of our people as a whole, I see a basis for optimism. But this grass-roots thinking must be transmitted to those in authority. Here, then, is a responsibility and a challenge to all private citizens -- a responsibility to be informed and to inform others -- and a challenge to find ways to make one's thoughts understood.

Historically, the Federal Reserve System has had relatively little contact with foreign central banks and international banking institutions. I believe this has been in conformity with the intent of Congress, and I for one do not believe that our best interests would be served by any loss of sovereignty. However, I do believe that our present position in international economics will require us to maintain better liaison with our foreign friends than we have in the past. Our future and theirs are intertwined. More frequent contact and better liaison would require confidence on both sides of the Atlantic. Some have suggested that some sort of world Federal Reserve be organized, but I can hardly believe that the American people would consent to our participation because an inherent part of any such plan is a loss of sovereignty to the participants. Perhaps my southern heritage influences me to place more importance on the role of the States in our union than do others, but I believe we are all united in our determination to protect our sovereignty, which I believe is the taproot of freedom.