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OUR NEW POSITION IN THE WORLD

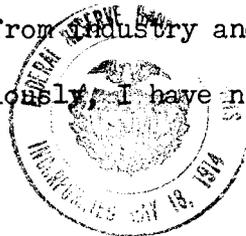
Remarks of G. H. King, Jr.
Member of the Board of Governors
of the
Federal Reserve System
before the
Fourth Annual Southern Trust Conference
Jackson, Mississippi
May 4, 1961

OUR NEW POSITION IN THE WORLD

I am happy to be with you today. 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 an equally important part of my job 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 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 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 indicated 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'." Even though I believe 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.

I do not believe it would be wise for me to try to give you trust officers a lot of advice as to how you should do your job. As you possibly know, I come from industry and my experience has been mostly in that field. Obviously, I have not had an opportunity to



observe the deeper workings of trust machinery. But I believe the Federal Reserve and you, as trust officers, have a common ground of interest. That interest is the integrity of the dollar. While our job could be described as joint trustee (with Congress) of the "integrity" of the dollar, your job is as trustee of dollars.

Funds you administer are the result of saving by someone who had confidence in the future purchasing power of the dollar. If we should foresee a time when this type of individual doubts the future of the dollar, the incentive to save is diminished and we could normally expect a decline in flow of funds to trusts. Such a decrease in flow of savings would impair the ability of the economy to create enough new job opportunities. As you perhaps know, the number of youngsters reaching age 18 will jump about 50 per cent by the middle of this decade.

Your expectations of the future stability of the dollar obviously affect your investing decisions as between equity and fixed income securities. Your decisions as to the use of trust funds affect economic growth and also employment opportunities which we know are needed in increasing numbers. Thus, the way you administer trust funds has an effect on long-range problems, as do our actions in the field of monetary policy; but, just as monetary policy alone cannot solve these problems, neither can your work alone solve these problems. Our efforts -- yours and mine -- can make a contribution, but that is all. Others with a responsibility to make a contribution must face these same problems if they are to be solved or minimized.

From what I have said, I believe it is apparent that you and I have a common interest -- the integrity of the dollar.

Now I would like to turn to a related question that keeps coming back to me again and again: How will our country respond to its new position in the world? I say new position because in recent years our nation 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 competitive position in world trade is challenged by these same allies.. Statements are made that we have "priced ourselves out of the market." While this is true in regard to some items, we should not overlook the fact that we still run a substantial trade surplus in our international balances. But despite this surplus from trade, other commitments which Congress has believed necessary as part of our role in world leadership produce the deficit.

Speculators have been challenging our position as reserve banker to the free world. This threat to our power and prestige has abated at the present time. Perhaps a wiser appraisal 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, the sculptor, is working hard now to create a new and great profile in courage. We should hope the appointment for the sitting will be kept; indeed, the fate of the great American vision of freedom might hinge on the courage of one man.

There are only two 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 of leadership 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 both 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. Another way to express our position might be to say that the world is waiting to see if we Americans, who live in relative plenty, can curb our apparently insatiable desire for more money and less work.

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 to which I refer is the 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 rapid growth. As long as our future course is in doubt, the economic wheels will probably have difficulty in reaching full speed.

As I have said earlier, 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. These are the minimum obligations of citizenship under our humanistic form of government.

A logical question we might ask is this one: What additional contribution can the Federal Reserve make at this time? I believe that our present position in international economics will require us to work toward a greater liaison with our foreign friends in international finance than we have achieved in the past. Our future and theirs are intertwined. More frequent contact and better liaison require confidence on both sides of the Atlantic. The apparent need for close cooperation is brought into focus by the recent organizational meeting of the Organization for Economic Cooperation and Development in Paris. I do not suggest that we allow anyone else to make our decisions for us because I am convinced that our best interests would not be served by any loss of sovereignty.

The problem of international money flows has become a bigger one in recent years and has prompted much thought. Some have suggested solutions. One suggestion has been 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. The effect of such a plan would be to subrogate our own ability to manage our affairs in favor of a group in which we would be but one voice of several. I would grant that the ultimate hope of peace in the world lies in the willingness of men to treat each other justly and submit to justice; but, could all nations agree on a definition of justice? Since it is unlikely that we could define "justice" in such a way as to satisfy even those of us present here, it is naïve to hope that a much broader mixture of human beings with even more varied ideological backgrounds would more likely find agreement. Possibly there will be a day when we might think citizenship in the world more desirable than citizenship in the United States; however, current unrest and revolution in the world do not suggest that mankind has reached the advanced stage of brotherhood for which we all hope.

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 that we are all united in our determination to protect our sovereignty, which I view as the taproot of our most cherished possession -- freedom.