

With my own particular responsibilities, I will be forgiven, I hope, for thinking the big news of recent days was the President's call for additional tax revenues, even though it may run counter to the recollection some of you may have of me in my old career -- a career built on the premise that the only good tax was a repealed tax. As you know, he asked the Congress to enact a ten percent surtax on incomes, to be effective July 1, 1967 for corporations and October 1, 1967 for individuals, and to postpone scheduled reductions in auto and telephone tax rates. The Federal Reserve System has long urged higher taxes, and its hope now, of course, is that the Congress will quickly and fully oblige the President.

You are entitled to know why I personally have so enthusiastically embraced the proposal to increase our income tax load -- unless, of course, you are one of those who believe lawyers and CPA's are totally without conscience anyway. Well, in 1966, you will recall, we did not get the increase in tax rates which many of us -- the Chairman of the Board of Governors, Bill Martin, included -- felt was necessary. In consequence, the Federal Reserve had to act in a variety of ways to cut the growth of bank credit, and in the process inconvenience a great many individuals and firms. It had to increase interest rates too, although it was not happy reducing the flow of money to financial intermediaries like banks and S & L's, and contributing thereby to a serious recession in the construction industry. But, to repeat, the Federal Reserve had little choice. Had it not acted decisively, prices generally would have risen even more than they have.

The point, though, is that with the President having called for additional tax revenues, we can be reasonably confident of avoiding the difficult choice of 1966 -- whether to accept further increases in prices or,

in order to curb inflationary pressures, subject the economy to yet another severe dose of monetary restraint. The economic outlook is bullish. Let me be quite clear on this. Inflationary pressures may have abated somewhat in recent months, but they are going to intensify as the year wears on. A reduction in private spending is going to be necessary. But an increase in tax rates of the order proposed by the President ought to reduce private spending sufficiently. It is not likely that the Federal Reserve is going to have to go all out again. Unless, of course, the Congress does not oblige the President. My judgment, for what it is worth, is that it will -- if only after fussing some.

Inflation, as we all know, is a most undesirable form of taxation. But there is another reason for our wanting to avoid another round of price increases. Our international position would be weakened, not strengthened, by another round of price increases. And if there was a time when we could afford to see our international position weakened, it has long since passed.

The pendulum of monetary policy swings between domestic and international criteria. As I see things, we are entering a period when international considerations will be exceedingly important -- especially with a tax increase which will ease some of the domestic ~~pressures~~^{ones}. For a long time now the pound has been suspect. Confidence in the dollar has been great. But Britain's international position has not really improved. And if there is another exchange crisis in Britain, confidence in the dollar could wane. Our exchange reserves could come under considerable pressure.

Then, too, there are the discussions of international monetary reform, which supposedly will culminate in an agreement this coming September when International Monetary Fund meets in Rio. We do not know what the agreement will be, but one thing is certain; whatever U.S. officials say, the agreement is going to be disappointing to the U.S. We are not going to get the kind of

reform for which a couple of years ago we were hoping. And who knows how foreign owners of dollars are going to react to the agreement hammered out at the Fund meeting in Rio.

Please understand, I am not predicting a crisis of confidence in the dollar. I am saying only that the risk of one, while still small, has perhaps increased somewhat. The moral, then, as I see it, is that we should do nothing to give anyone cause for reduced confidence in our ~~international position~~ ^{ability to meet dollar claims,}. We cannot, therefore, be casual about inflation here at home. Which again is why we can be happy the President has called for additional tax revenues.