Luncheon meeting of the Cedar Crest College Associates held at the Lehigh Valley Club, Allentown, Pennsylvania, on Wednesday, February 16, 1966.

THE ECONOMIC SITUATION

I. OUR ECONOMIC OBJECTIVES:

A. Full use of resources -- especially human resources.
B. Reasonably stable level of prices.
C. Reasonable balance in our international accounts.
D. Growth.

II. THE ECONOMICS OF THE 1920's and Monetary Policy.

III. THE GREAT DEPRESSION and the Emergence of Fiscal Policy.

IV. POST-WAR SHIFTS IN EMPHASIS.

A. War and early post-war assumptions and policies.

1. Vast unemployment specter of 1930's reappeared.
2. C.E.D.
3. Employment Act of 1946.

B. Early post-war experience.

1. Not unemployment, but inflation.

   (a) 1945-1949 consumer prices +25%.
   (b) " wholesale prices + 30%.

2. Inadequacy of fiscal policy alone.

   Surpluses in calendar 1957 and 1958.

3. The "Accord" of March 4, 1951.

C. From Dollar Gap to Dollar Glut.

1. Theory of U.S. efficiency.
2. Reconstruction in Europe -- Marshall Plan.
3. Descent of Iron Curtain.

   U. S. responsibility -- Global commitments.

4. Restoration of convertibility.

V. OUR GOALS, 1958-1964.

A. Achievements/shortcomings.

1. Unemployment never under 5%.

2. Prices never more stable.
   (a) Wholesale in 2% band.
   (b) Consumer + 1½% a year.
   Quality problem.

3. International Equilibrium.
   A deficit quarter by quarter since Suez.

4. Growth: some but not adequate.

B. Implications for Policy.

1. How move in three directions at once?

2. How stimulate demand without forcing down interest rates?

VI. MULTIPLE APPROACH.

A. To unemployment:

1. Increasing aggregate demand.

(a) Via fiscal policy.

(1) Income Tax cut of 1964.
(2) Income Tax cut of 1965.
(3) Excise Tax cuts of 1965-1966.

(b) Via monetary policy.

(1) Facilitate flows of funds through capital markets.

In 1962 - $58 billion.
1963 - 62 billion.
1964 - 71 billion.
1965 -

2. Reducing structural unemployment.

(a) Regional.

Appalachia Assistance Bill.

(b) Structual.

(1) Manpower Development and Training Act 1962.
(2) Economic Opportunity Act 1964.

"Anti-Poverty Bill.

(A) Job Corps -- remedial education and manual skills.
(B) Neighborhood Youth Corps. 16-21 year dropouts.

(3) Elementary-Secondary Education Bill for districts with low-income families.

B. To Prices. They were stable -- not much needed.
Wage-price guideposits -- the famous 3.2%

C. To Balance of Payments.

1. Nature of Problem. Export surplus not sufficient to meet --

(a) Government foreign expenditure for defense.
(b) Government foreign aid.
(c) Private investment.

2. Basic nature of solution.

(a) Increase export surplus.
(b) Reduce Government expenditures.
(c) Reduce net private foreign investment.

3. Increase Export Surplus.

(a) Fostering free trade: Kennedy round.
(b) Remaining competitive in price.
(c) Improved marketing, products.
(d) On services: Tourism: See America first.

4. Reduce <u>net</u> Government expenditures.

(a) Controlling gross amount. (Viet Nam!)
(b) Prepayment on loans.
(c) Offsetting purchases here (<u>e.g</u>., Germany)
(d) Aid in kind.
(e) Tied loans and aid.

5. Reducing net private investment abroad.

(a) Via general monetary policy.

(1) Operation Twist.

Bill rates:- $2\frac{1}{2}$% in 1961; 4% June 1965.
Net reserves from +100 in 1964 to -100 in 1965.
Discount rate $3\frac{1}{2}$ to 4% in sterling crisis.
Treasury issue of bills.

(2) Regulation Q ceilings removed from foreign deposits.
(3) Regulation Q ceilings increased for domestic.

(b) Increasing relative attractiveness of investment in the U.S. via fiscal policy.

(1) Increased depreciation allowances.
(2) Investemtn Tax Credit (7%).
(3) Reduced corporation income tax.
(4) Interest equalization tax.

(c) Temporary expedients.

(1) Voluntary credit restraint program.

(A) Banks and financial institutions.
(B) Others.

6. Improving the International Financial Mechanism.

   (a) Gold pool: In October 1960 gold price reached $40.
   " 1961 U.S. proposes.
   November 1961 first trial run.

Roosa bonds.

   (b) Swaps: First used March 1962.
   Now ____ countries -- $_____ billion.

   Kennedy assassination illustration.

   (c) General Agreements to Borrow -- fall of 1963?

   Group of 10 -- $6 billion.

   (d) Increase in I.M.F. quotas.

   (e) General Study of International Liquidity.

VII. THE PAST FEW MONTHS.

A. As 1965 drew to a close:

1. For the first time in about a decade unemployment was approaching the interim target of 4% -- and was still declining.

   Shortages of skilled workers widespread.

2. Plant and Equipment operating at high levels -- inventories (despite steel) accumulating .

3. Prices at wholesale rising and at retail rising faster.

4. Purchasing agents report anticipated increases.

5. Expenditures for Viet Nam and other purposes on the rise.

6. Balance of Payments improvement largely a result of temporary voluntary program.

B. The Board of Governors on December 5, 1965 (4-3 vote!) approved increases in discount rates from 4 to 4½% at New York and Chicago and other Reserve Banks followed by December 13.

   Increased ceilings on time deposit rates -- Regulation Q.