Statement by

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Let me make clear at the outset that I am basically optimistic about the American economy. My only reservations are in the matter of speed. We are growing too fast; too much of tomorrow is occurring today. We have not yet scratched the surface of our potential but, like our modern automobile, the economy requires safe drivers, and one who advocates safe driving is not an opponent of growth nor is he one who urges more unemployment to restrain inflation.

Inflation is the root cause of the current international financial crisis. Events since 1965 clearly demonstrate how inflation produces feverish activity, impairs sound growth, undermines balance of payments, and distorts the savings and investment process.

Money is a medium of exchange, a standard of value, and a store of value. The American dollar in the post war world has been the principal bulwark of the international payments system as well as the best currency in the world in which to save. This is no longer true and now no one has complete confidence in saving in any currency. This accounts for the speculation in gold and this at a time when the world needs capital formation desperately.

When the Germans decided to let their currency float and we embarked on our new economic policy, we set sail on an uncharted sea where, despite assurances to the contrary, liberal trade policy is going to be buffeted by severe storms and, in my judgment, our economic, our monetary, and our diplomatic position has been definitely weakened.

I think the President acted boldly and courageously in reversing his stand against wage and price controls and taking direct action against inflation. Phase I was definitely a success and Phase II did moderately well. We had a good year in 1972 and business has been unusually strong in 1973, so strong in fact that inflation has already raised its ugly head once again. In order to bring this about we have engaged in fiscal stimulus so far in excess of any reasonable requirement that, in my judgment, it borders on the irresponsible. As a counterpart, monetary policy had to be easy.

I seriously question whether the full employment budget concept is an adequate answer. I welcome the efforts the Administration is currently making to limit spending. We must not only have limits on spending but limits on the rate at which we consume those resources which we now realize are not inexhaustible and which, as a matter of simple prudence, must not be squandered. In the absence of such limits it is hard to see how anyone can be confident that we are not heading into another inflationary spiral which will have as its aftermath the inevitable recession.

The boom which we have produced by a combination of fiscal stimulus and easy money is now running into shortages of capacity and unforeseen weather problems to produce a flood of business froth which is now cresting and will, I think, result in at least a moderate recession by the end of this year or the middle of the next.

But my view of inflation is clear. To those who believe that full employment requires inflation, my conviction is that unless inflation is restrained full employment is impossible. I happen to believe that at least relatively full employment on a sustainable basis is not only desirable but feasible and can be achieved with high levels of business activity if we can find some way of containing inflation and maintaining reasonable stability. The nations of the free world have become remarkably successful at priming the pump and forcing growth but none of us has yet learned how to apply the brakes and sustain growth and employment. We have now turned back to the view that each country can stimulate its domestic economy without regard to its balance of payments and without regard to its impact on others. In short, this marks the end of an era of international economic and monetary cooperation envisaged in the Bretton Woods Agreements Act.

And now I want to say a few things about the dollar. I am distressed when people say, "Thank goodness we have devalued the dollar." That it became necessary and even desirable to do so cannot obscure the fact that it represents a failure of United States economic policy--a failure to restrain inflation and failure to improve our balance of payments. I approved of the first devaluation, however reluctantly, and accepted it as both necessary and essential to give us a new start. And I was not inclined to dispute the President's statement that the Smithsonian Agreement was the most significant in the history of the world, assuming we were going to build on it promptly and effectively. However, we became suspended in an euphoria of belief that the realignment of currencies on that occasion settled all our troubles. This was certainly not the case as was demonstrated by the second devaluation of the dollar in February of this year.

I do not think this second devaluation was necessary; the dollar is now, in my judgment, undervalued and it is going to take considerable time to persuade people that we are not going to do it again. On a recent trip in Europe I was asked repeatedly, "How soon will the dollar be devalued again?" and was unable to persuade anyone that we had seen the end. I think it is now imperative that we defend the value of the dollar by intervening actively to supports its value whenever threatened. It is not yet believed that we are prepared to go all out to make the dollar a currency in which it is useful to save. I am appalled by those in this country who think that convertibility of the dollar is of no importance and who believe we can concentrate all of our attention on stimulating the domestic economy without regard to our deteriorating balance of payments.

Unless nations are willing to have fiscal and monetary responsibility there is no way we can deal effectively with unemployment and produce lasting prosperity.

I am sure it will take time, as we are presently learning, to reconstitute our international monetary system but it is essential. I believe that the International Monetary Fund should be converted as rapidly as possible into some form of a World Central Bank. Secretary Shultz, in his splendid speech at the meeting on September 26, 1972, stated, and I quote:

> "Several times today, I have stressed the need for a comprehensive new set of monetary rules. Those rules will need to be placed under guardianship of the IMF, which must be prepared to assume an even more critical role in the world economy.
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> "Given the interrelationships between trade and payments, that role will not be effectively discharged without harmonizing the rules of the IMF and the GATT and achieving a close working relationship."

I would go further than he does. I think we must have a Federal Reserve System in Europe and an International Monetary Fund in which nations will pool some portion of their sovereignty in their own interest. We do indeed need a new balance between "flexibility and stability.... between unity of purpose and diversity of execution." Nevertheless I am convinced that we should sacrifice some individuality and some small measure of sovereignty in what would constitute a World Central Bank. Unless we can work out something of this sort we are going to have a lower standard of living in the world than would otherwise be achieved and we will have frictions that will make keeping the peace more difficult.

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