To-night I want to make some observations on a very important subject: the money and credit of the U.S. The dollar is a symbol of the country's strength. Formal devaluation of the dollar would suggest a decline not only in American economic strength but also in moral force. From the earliest history of our republic this has been recognized and our F.R.S. is to-day our primary bulwarks against this contingency. It is vital that this be understood.

Now it is my deep conviction that a central bank must not be engaged in partisan politics and must serve effectively whatever administration is in power. Money we all know is a medium of exchange. Money we all think of as a standard of value. Money which we save is a store of value. And if saving is to be ~~profitable~~ and productive money must be a measure of value. This is where

To change the number of feet in a yard or ounces in a pound ~~when a contract is to be~~ can be done, of course, but it has a serious impact on fulfillment of contract.

There are ~~plenty of~~ numerous legitimate areas of political difference between the parties: foreign policy, ~~trade policy~~, ~~taxation~~, ~~public limits of govt power~~ the limitations of Federal power, the prevention of monopolies and other matters of principle or theory upon which the voters are divided by their convictions or their interest, but

Now let's discuss this matter of the budget. No reasonable man believes budgets can always be balanced. Likewise no thoughtful man believes that an unbalanced budget is a desirable way of life. Deficit financing may be a necessity but it is by no means meritorious in and of itself. If when times are relatively good, you don't provide anything in the way of a surplus, then when times become bad and you are forced to adopt deficit financing you start in a poor general position. Furthermore when you have been running a deficit in our international balance sheet in the event of the last twelve years external and internal deficits tend to combine, ~~and~~ to compound the problem. ~~Certainly monetary policy cannot be expected to solve this problem.~~ We need badly an enlightened public opinion which will ~~look~~ think of the balance of payments, and also the Federal budget deficit or surplus over a period of years rather than just over a single year. Certainly monetary policy cannot of itself solve this problem.

Then let us come to ~~the management of the debt~~ fiscal policy and the management of the debt.

For years this body and many others have pointed to the need ~~of~~ an improved tax structure. Tax revision, ~~and~~ tax reform ~~both~~ in terms of equity, in terms of getting more revenue, and in terms of promoting the growth and development of the economy has been on the agenda year after year. Yet we postpone action ~~year after year~~ repeatedly hoping ~~that~~ we will someday have sufficient surplus so ~~that~~ we can give everybody a little relief regardless of whether they are entitled to it or not, and thus avoid ~~unpleasantly~~ make everyone happy unhappiness. To me this is a poor way to go about it.

We have tended ~~to~~ manage our debt in too haphazard a way and a greater proportion of it has become ~~to short~~ short term than prudence would dictate. We have 200 billion dollars of marketable debt out of a total debt of 295 billion dollars. Savings bonds which constitute a direct call on the Treasury in the amount of 47 billion dollars are in addition to this marketable debt. 80 billion dollars of obligations come due in less than one year so we are on almost a constant merry-go-round of refinancing. We have 68 billion due in from one to five years, in five ~~to~~ ten years roughly 18 billion plus, in 10 to 20 another 18 billion. And as to over 20 years after much hard work (and recently some real progress has been made through advance refunding) ~~the~~ Treasury has succeeded in moving from 8 ~~to~~ 20 years to 11.6. I do ~~not state~~ not know what the correct proportions are but surely our debt ~~structure~~ should be better balanced ~~unless we are to risk~~

Next we have the wage-cost-price spiral. ~~which~~ Here you have a problem of productivity and collective bargaining. Certainly the Central Bank has no control over this. Nevertheless it is vital because it relates directly to federal finance. The government ~~must be financed.~~

the final phases of any long term battle against the ravages of inflation meet when federal finance and the balance of payments meet in such a way that ~~spending deficits, and artificially cheap money~~ higher interest rates are required to finance the federal government unless the banking systems substitute credit for savings.

Regardless of the relative importance of these various elements the limits of monetary policy are set by its relationship to these factors. For many years now, its relationship to these factors. For many years now, under varying conditions, we have been told ~~we are~~ under varying conditions, we have been told in effect: granted we have an unsound budget policy, granted we have an unsound fiscal and debt management granted we ~~are~~ have an unsound wage cost policy, granted we ~~are~~ have an unsound wage cost factor, now don't come along and give us a balanced monetary policy because this will make it impossible for us to continue. And if at this juncture monetary policy abdicates and falls in step equally with these other elements, then it is inflation full speed ahead.

Now let me close with a word about

interest rates. I have consistently advocated through the years as low interest rates as it is possible to have without inducing inflation. My reason is a conviction that we will get the maximum of capital formation in this way.

Having said this, however, we must recognize our system is ~~[illegible]~~ that of a market economy. Rising interest rates when they reflect a response to improving business conditions have never been a sign of weakness. When artificial forces prevent their rise it may well lead to pressures which will complicate rather than assist our growth