For release on delivery

As community leaders, bankers share a heavy responsibility for preserving the basic concepts of freedom under which private enterprise, not only in the field of banking but throughout commerce and industry, has provided the American people with the highest standard of living in the history of the world.

Preserving our fundamental freedoms does not mean blind adherence to the status quo. It is well from time to time to take a fresh look at our established institutions to be sure that they are making their maximum contribution to the Nation's economic health and progress.

The Federal Reserve System, which is now nearly 39 years old, is unquestionably the main bulwark of our private enterprise system. All who have at heart the best interests of our entire banking system welcome fair-minded and searching scrutiny designed to improve its functioning in the national interest. We must be sure, however, to avoid change merely for the sake of change and we must be always on guard to preserve the broad fundamental concepts upon which our free institutions are founded. The responsibility for wise decisions is as much the duty of the private citizen as it is the duty of the public servant.

This was the theme of Reserve Board Chairman Wm. McC. Martin's remarks delivered this afternoon before the Kentucky Bankers Association.

Chairman Martin said he was determined to take advantage of every opportunity to provide commercial bankers with a clear understanding of the problems faced by our central banking organization. In turn he hoped through
such meetings to improve his own understanding of the problems of modern-day commercial bank relationships with central banking.

Bankers themselves through their representation on the boards of directors of each Federal Reserve Bank and branch are in an excellent position to add to a better understanding of the day-to-day problems of commercial banks and contribute substantially to the formulation of banking and credit policies in the national interest. The great strength of the Federal Reserve, he said, lies in the system of regional banks knit together by a national governing body in Washington in contrast to the establishment in many other countries of a central institution with authoritarian powers.

Turning to the fight on inflation, he stressed the importance of attacking it on three broad fronts. First, there must be adequate fiscal measures to place the defense program on a "pay-as-we-go" basis in so far as possible; second, increased emphasis on holding down credit extensions, both public and private, except for most essential purposes; and, third, a greatly expanded program to encourage saving by the general public.

The contribution of bankers to the progress of the Voluntary Credit Restraint Program and to the Treasury's current Savings Bond campaign indicates the statesmanlike way in which they are measuring up to their responsibilities on this front. The Voluntary Credit Restraint Program, he added, is a dramatic example of what the private financial institutions can do within the framework of a voluntary democratic organization.

The fight is far from over, he said, because we are only now coming into the critical period of heavy defense expenditures. Our ability to deal with inflationary pressures resulting from this spending will determine to a large extent whether we are going to be successful in maintaining the purchasing power of the American dollar.
Referring to the recent action of Congress in relaxing the provisions of Regulations W and X relating to consumer and real estate credit, Chairman Martin said that while it is still early to appraise the full extent of these changes, the expansion of consumer credit balances appears to have resumed. During August instalment credit outstanding rose by $155 million. This is at an annual rate of nearly $2 billion. If this trend continues it would largely offset gains made on other fronts in the anti-inflationary battle.

Likewise, relaxation of real estate credit terms has increased demand for housing and for real estate credit. Housing starts for the month of September were approximately 5,000 units greater than in the preceding month and if this trend toward more building and increased use of credit continues it will also add to inflationary pressures.

This is further evidence, he concluded, of the necessity for increased determination on the part of the Government, of industry, of labor, and of the financial community to repel inflationary forces at home as resolutely as we would resist aggression from abroad.