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OUR AMERICAN DOLLAR

by William McChesney Martin, Jr.
Chairman, Board of Governors,
Federal Reserve System

I am just delighted to be with you. The main reason that I am so pleased to be here today is to acknowledge publicly, on behalf of the Federal Reserve System, the assistance your industry has given us in the last few years in connection with our problems, and to assure you of the interest we have in your welfare.

I have had extremely pleasant relations with many of you. I see in the audience Paul Selby; my former teacher, Dr. John Chapman of Columbia; and the invitation was extended to me through Senator Scott Lucas, with whom I have had friendly relations for many years. I want to acknowledge appreciation for this help.

When I accepted the invitation I was not quite sure what I ought to talk about, and I am not quite sure yet. However, I thought about it a little bit.

I received a letter this summer that I thought was quite amusing. I was invited to make an address, and the individual inviting me said "Mr. Martin, you can choose your own subject, but we would like to have it on either inflation or deflation."

Well, that covers quite a wide circle, and what I have chosen to say today will disappoint some of you. I am going to talk in simple, general and somewhat discursive terms around the theme of our American dollar.

I think it is important, I don't think it is general, and I think it is particularly important in the times that we are living in.

We all have a tendency to say that these are the most difficult times that the country has ever seen. It seems to me we are always in difficult times. I can't remember a time in the last ten years when you couldn't have gotten up and said "These are the most difficult times we are living in."

I also think that we have to place our emphasis on broader things than the specifics. People don't like to generalize, but proper generalization, it seems to me, is very important.

I am familiar with commissions; I am familiar with the problem of the man who has to earn his living by selling things. I had been nothing but a bond salesman most of my life until I got into Government Service, and I still think of myself as nothing but a bond salesman - as I was described once by an individual who didn't have the highest regard for my intelligence - and I accept his designation quite readily.

But at the same time, to be a good bond salesman or a good credit man or a good sales finance man or a good anything else, you have got to have some principles to deal with, or to rest on, or you haven't got a very sound foundation.

I confess that I do not know the answers in the job I am presently undertaking. Some of you may think this disqualifies me for the job and perhaps you are correct, but I confess quite freely that I don't have the answers.

Nevertheless, I think it important that we keep in mind some basic principles, so what I want to talk about is what I call loosely our American economic heritage, with special reference to the dollar.

I attended a Fourth of July celebration this year and listened to three lengthy addresses, by very intelligent men, on what I would call the American political heritage. I sat there as I listened to these addresses - and they weren't too bad - and I counted some seventeen times in which I heard the phrases, freedom of religion, freedom of the press, freedom of speech, freedom of the right to assemble, and to petition, and not once in the course of three hours of oratory did I hear any reference to the American dollar or the American economic system or our American economic heritage, and what I consider to be the complete inseparability of political freedom and economic freedom. And this was, by and large, a business group. Now that is something that I think ought to make all of us pause.

I go back to the Federalist papers frequently. I enjoy history, and I commend to your attention a re-reading of those papers in terms of finance: a re-reading of early American history in terms of finance, because it seems to me the contents are very clear.

The signers of our Declaration of Independence, the men by whom the foundation of this country was determined, were, with very, very few exceptions, in no sense of the word socialistic in their thinking. They had come from tyranny. They had come to this country seeking primarily liberty and freedom. They understood the difference between liberty and license.

But one of the things I think they understood most clearly - and I do not believe I am rationalizing on this although I think it is easy to rationalize

history - was the item of depreciation of the currency. I think they understood it because of their backgrounds. They understood what tyranny could be in terms of a despot who could depreciate coin either to finance another war or to outfit another wife, and they were very very careful in the early days of this country to try to keep this power over money in proper perspective.

Through the first Bank of the United States, and the second Bank of the United States, you see what I call this institutional development of our money system very clearly.

Of course, the Congress has the power over money - and it should always have the power over money - but money will not manage itself, as we were told by a distinguished English economist in the late 19th Century, and Congress readily recognized the difficulties it had in managing money. But, through the debate on these two institutions you see clearly the dangers inherent in an improper balance between public and private interests in the coin of the realm.

I think if you study Andrew Jackson's dissent in connection with the second Bank of the United States, you will be impressed with the fact that he was not dissenting to the need for the bank, but was questioning whether there was enough public representation in the bank at that time. On that issue - he felt that there was not - the bank was defeated.

Through the years, up to the Federal Reserve System, there has been the evolution of a merger of public and private interests in banking, in money, in finance, in credit. It seems to me to have come to a head and to fruition in the enactment of the Federal Reserve Act, and it is something that we must recognize as an institutional concept.

Not for one minute am I trying to give the impression that I believe the Federal Reserve System today is a perfect institution or a perfect organization, or that it may not need to be further attuned to the times we are living in, by some changes in structure and in form as we go along. But it is important that we bear in mind what the institutional concept is, because in terms of our inherent background I think we can rightly say of the Federal Reserve System what Disraeli repeatedly said when he was campaigning in Britain: "Individuals may form communities, but it is institutions alone that make a nation."

I believe that the Federal Reserve System represents today the primary bulwark of the free enterprise system; that as a political institution in terms of political science it is a merger of public and private interests in an effort to preserve the purchasing power of our money, which warrants the careful attention and thinking of all of us.

Now what is this System? Twelve banks, twenty-four branches, 250 directors bound together by a Governing Board in Washington, given only the authority necessary to initiate, determine, and propel national policies.

The reason I am going into this in detail is that I think it important that you understand how decisions are made in the Federal Reserve System.

The emphasis is on the word "System". Decisions are not made by the chairman of the board, however much newspapermen may like to personalize things, or by the Federal Reserve Bank of New York or Chicago, however important those institutions may be in the system.

Properly operated in the setting which I am describing, it is a system designed to merge public and private interests in terms of the currency; and designed to make it possible to bring grass roots pressures to bear, whenever they are needed, on the management of the currency.

I believe that to be very important, and I believe it is important for you to recognize that when decisions are made in the Federal Reserve they are made after debate, and sometimes disagreement. And in terms of our open market committee, we frequently try to get a consensus of judgment as to what ought to be done at a given time under given conditions.

That is distinct from most of the departments of the Government, such as the Treasury Department, where in the final analysis, the Secretary of the Treasury makes the decision; and regardless of what his assistants or aides may think, that is the decision.

It is easier to operate that way but you can frequently make more mistakes that way.

I believe it is important for us to understand this in the period that we are living in.

Now, what is this American economic heritage? I won't spell it out in detail, but to me it isn't as complex as some professors of history seem to me to make it.

It is private property, competitive enterprise, the profit motive, operating in the open market through the price mechanism; the market process being organized through the price mechanism. The concept of all of these factors evolves as our communities evolve, and interference with that market process comes only through the electorate, working on the Congress, when decisions are made that the market should be interfered with to serve the greatest good of the greatest number, or the greatest number of the members of the community.

Those decisions, gentlemen, I say should be taken very prayerfully and very carefully, if we are not to separate economic freedom and political freedom, which is the heritage upon which all of us rest.

So much by way of background.

Now I want to say that in the field of consumer credit we have produced through your assistance and help, and others, a six-volume study.

A friend of mine terms it a stupidly monumental work. I am not going to pass judgment on whether it is a good piece of work or a bad piece of work. I assure you we did our best with it, and you know where we came out.

We will have to await developments and see how experience may be tested in the light of those conclusions, and that experience must be tested in terms of the market. There is no other way I know to test it. I believe that an industry which has the responsibility and the intelligence that this industry has, can meet that test when the test comes.

Now, what about the period that we have been living in? What in essence - and nothing I am saying here is new - has been our problem in the last few years?

I gave you the background of the Federal Reserve System. I think we must all recognize the part that the Employment Act plays in things.

The Employment Act of 1946, as I have repeatedly pointed out, was adopted under the fear of 1929, and with a misconception on the part of economists and statesmen as to what the conditions would be in the immediate post-war world.

It was assumed by many people that when the soldiers took off their uniforms there would be widespread unemployment; that the major problem we had to deal with was unemployment.

There was very little recognition - and I have gone over the debates and studied the record as carefully as I can of the background of the Employment Act of 1946 - very little discussion of money as a standard of value. The emphasis where money was involved was always on money as a medium of exchange, the volume of money, as though we could put this on a mechanistic basis.

I think all of us know what the problems of the postwar world have been. It has not been stimulating jobs. There may come a time when that is the basic problem, but the problem of the last ten years with the new horizons, new technology, new raw materials that appeared during the war, has been not creating employment. The problem has been in preventing inflation from undermining the stability of existing jobs and jeopardizing those jobs, so that when an inevitable period of correction from excesses comes, there will be two people unemployed rather than only one person if it had not been for the preceding inflation.

I subscribe to all the objectives of the Employment Act. I accept it wholeheartedly and refuse to believe that the alternative to inflation is unemployment. But I approve and accept the objectives of the Employment Act of 1946 on the positive assumption that we are offering the American people not a pig in the poke, or the fountain of perpetual youth, or pie in the sky, but something that will make it possible for them to have ultimately the higher standard of living within their grasp.

I have talked to a good many individuals who tell me "you are an idealist and don't understand the nature of things". I say that if you take the cynical

assumption that in a democracy people won't understand, you will find that your idealism will eventually lead you to the point, where you will find that the people will discover they have been sold a pig in the poke, and that then the retribution and the suffering for all of us will be considerably greater than necessary.

If you study the Employment Act some of you may say that the preamble is gobbledygook. I don't read it that way. We are talking about maximum production, maximum employment, maximum purchasing power. But that has to be put in perspective; purchasing power is one of the elements upon which the saving and investment process of our country, - and I am relating it now to these concepts which I have spelled out in very simple terms - is at the heart of achieving a higher standard of living. If you undermine this concept you will ultimately reap the whirlwind. That I believe has been the problem that we have been dealing with.

Now, what happened? Over the last two years - and I am not blaming anybody for this - inflation got ahead of us. When inflation gets ahead of you it is a process which is very insidious, very compelling, and very pervasive. It goes through the entire economy. And when you lose, as I have repeatedly stated in the Congress, more than \$10 billion of your gross national product with a mark-up in prices and no additional goods and services being produced for the economy, it doesn't take much thought to recognize that some adjustments will have to be made.

It may be very beguiling to believe that you can spend your way rich. It may be very beguiling to say that if you just create more purchasing power you can solve all of your problems.

I have repeatedly faced audiences and groups who told me what we need is more production and more purchasing power. I am not quarreling with that. But, when you get into the realm of borrowed money, you have another factor to deal with.

When we talk about reducing spending and increasing savings, we are not saying that Mrs. Jones or Mr. X, if they have money, shouldn't spend it. I think you can make a fetish of thrift. I think you can go just as far to the other extreme, be completely parsimonious and niggardly, feeling that the only virtue in life is saving, as you can go in the opposite direction where the only virtue in life is debt.

Over-all, we are all dependent upon savings. The strength of this country, our ability to resist the alien philosophy from abroad, our ability to finance our needed expenditures, depends on our savings. I say to you that this is a rich country; spend what is necessary to spend, but we can't do it if we don't have a plan for financing. Sometimes that may mean increasing instead of decreasing taxes, but here you are dealing with basic philosophy and I think it is important. I don't want the interest rates to be any higher than they are necessary to be. I am not an advocate of high interest rates, per se.

There is no one in the Federal Reserve System today who wants to reward bankers or punish bankers or make it more difficult for anyone.

I believe that you will get the maximum contribution of capital development with as low interest rates as it is possible to have them without producing inflationary pressures.

Likewise, I do not advocate any higher taxes than are necessary. Also, I want to see us get our currency into a position where we know we can invest without assuming that the only way we can preserve our capital is to run faster than the inflation that has preceded us.

If you accept the expectation of inflation as a part of our way of life, as many of us do today, then I think you can see where the inevitable end will be, and I think all of us, in all phases of business and in all phases of the Government, have a real responsibility to recognize this problem.

I want to comment on Federal Reserve policy and these broad principles that I am discussing. I think some of these are very simple.

When you try to take short-term credit and use it for long-term purposes, and supply a deficiency of savings in the economy by the creation of fiat money, you are endangering the deposits and the solvency of all of us, whether you favor one industry or harm another industry.

I do not know about all the equalizing operations in our economy; I am certain that our tax system isn't equal in every sense of the word, but I do know that if you do not have a plan and a program for financing and don't know where the money is coming from, you are skating on mighty thin ice.

I have repeatedly stated, and I would like to reiterate - because we are charged with this from time to time - that the Federal Reserve is not seeking a recession. It is not seeking any decline in business, but, having said that, as I pointed out repeatedly in the Congress, if you put your hand into the fire you are going to be burned, whether you are a child or a grown individual. I am not saying that is the way it ought to be, but I say that we are dealing with human nature and when there is waste and extravagance, incompetency and inefficiency, the only known way we have in a free society of eliminating it is by taking losses from time to time. And if you think that the planned economy - the totalitarian economy - is not faced with this same problem, I think you are totally misunderstanding what is involved.

I happened to have the privilege of being in Moscow for some six months a good many years ago, and I don't mind saying that Mr. Mikoyan was one of the men still in power. In a conversation with him one evening we talked about this very problem - I don't know that he would even remember it. It isn't important, but I thought his answer was pretty clear. He said:

"Of course, if we get into trouble, we just absorb the loss - the Government absorbs it. If private industry doesn't absorb it, somebody has got to absorb it."

You may prefer the absorption by the Government, that is a matter of choice.

I am trying to arrive at what I consider the basic principle. This is a loss economy as well as a profit economy. If we are not equal to the task of accepting that, if we are going to run around and wring our hands the first time there are a few clouds in the sky and not look at our own business and our own judgment and question it, I think we are going to endanger a great many things that are important to us. I for one have little or no faith - I won't say no faith - but very little faith in the Government, or the Federal Reserve System, which is a part of the Government - of any other agency being smart enough or wise enough in their decisions to pick up the chips when the pieces are down and prevent declines that must occur from time to time because of mistakes of judgment.

I am not making any business forecasts, I am merely trying to talk in terms of the principles involved. I live in an environment where people come to me and one day they are on top of the world and the next day they see disaster and collapse ahead.

Having been a trader on the floor of the Stock Exchange, I am used to it and I smile most of the time, but I know very well that grass isn't going to grow in the city streets in this country. We have, in my judgment, more adjustability and more capacity and more intelligence in this American economy than we are given credit for, if we put it to the test, and I have more faith in our economy and less faith in the magic of money policy, or Government policy, than many of the people that discuss it from time to time.

I had an amusing experience that I will recount for you, and then I will bring my remarks to an end. At the recent Bank and Monetary Fund meeting I met a man at the reception whom I didn't recognize. He came over, grabbed me by the hand and said, "Mr. Martin, I want to shake hands with you. I approve of the policies of the Federal Reserve. A year ago I was dead against you. I thought you were completely wrong, but now I think you are right."

Well, I was pleased. I said "Here is a sinner that has been converted," and I paused, and then I found too, a tugging on my elbow, someone else came up and he said "But you know, Mr. Martin, if you don't change very quickly it will be too late - too late."

Well that is the problem that we are dealing with. I want to assure you that the Federal Reserve recognizes both inflation and deflation - they are connected - and that we are going to do all within our power to be helpful in resisting both. But I also want to make it clear that if you think there is any magic in the Federal Reserve, that when business reaches a certain level and starts to decline a little that we can just step in and stop it there, I think you misunderstand the workings of our entire operation.

I think it is terribly important in the times we are living in. We make all the comments we do about Sputnik and our Defense Program and the costs - if we just had more money we could do this - - -. I even have had to listen to people say "Do you know any housewife who can save money? Do you know anybody who has the income he is entitled to? Do you know people that can

take the sort of vacation they and their children are entitled to? And you are going to become a party to making it difficult for these good American citizens to have all these blessings?"

My answer, gentlemen, is "If that is the way they are going to attain the blessings, they are going to be awfully sorry some day that that is the way they got them. We are trying to give them these blessings so that they can maintain them, and sustain them, and grow on them."

At the risk of being considered a naive idealist, I still say I think that history shows us a great deal in this field. I am not so naive as to think that this money problem can be eliminated from politics entirely, but I think the perspective ought to be kept by both parties. It just happened that in going through some papers of long ago in the safe deposit box, I came across an editorial - that was written in a Midwestern paper I have here, during the campaign of 1896. I am going to read it to you because I think there is a lot of truth in it, and it is something that we all ought to think about.

This is entitled "Not a Party Question," and it reads:

"Why should not both Parties declare in favor of a sound and stable currency? Honest money is not a Party question and should never be made such. Democrats and Republicans are not divided upon the question of the length of the yardstick or the ounces in a pound weight. Why should anybody seek to draw Party lines in the number of cents in a dollar? There are voters now in both Parties who favor the free coinage of silver at the fiat ratio of 16 to 1, when the commercial ratio, the real ratio, the ratio of Jefferson, Jackson and Benton will be 31 to 1. The question as to what constitutes a dollar is one of fact and of morals, not of theory or selfishness. If both Parties should declare for sound money and against the free coinage of silver at the existing false ratio, they could then fight the Presidential campaign upon legitimate political issues, the question of taxation, our foreign policy, limitations of the Federal power, the prevention of monopolies, and other matters of principle of theory, upon which the voters are divided by their convictions or their interests. Such a declaration by both National Conventions would do more for the revival of business and the promotion of national prosperity than anything else that can be done in the realm of politics. All business and all forms of labor require a stable currency of the highest standards."

That was written in that campaign of 1896. I think it holds good today.

It is incumbent upon all of us who are thinking about this subject to recognize that we want to offer people something besides a pig in the poke, pie in the sky, or the Fountain of Perpetual Youth.

Thank you very much for letting me address you.