

Remarks of Wm. McC. Martin, Jr.

Chairman, Board of Governors of the Federal Reserve System

to the

Harvard Alumni Association

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It is courageous of you, if not downright foolhardy, to give this chance to an alumnus of Yale to tell Harvard men what they can do -- for their country, of course.

In the circumstances, there are temptations. But they conflict with the suggestion that I should like to offer today: that all of us adults, all over America, have a commencement of our own and declare a moratorium on childish ways.

One remarkable example of present day immaturity appeared in the press at the time of the recent stock market plunge, when one desperate soul was quoted as saying: "The only thing that can save us now is Washington."

But the press and the air have been equally replete with another example, now familiar to all. The quotation in this case takes this form: "Someone, somewhere and somehow, must save us from Washington."

That sort of thing might be all very well in a spirit of good clean fun, but the truth is, it is being said by adults, and in all seriousness. Well, I don't know how silly we can get, but I suspect we are doing our bickering best. Worse still, the recent outbreak of guerrilla sniping is threatening to turn into an uncivil war, with business, the Government, and at least one of the professions all caught up in one gigantic affray.

This, I submit, is a rather curious approach to the settlement of our problems and one unlikely to lead to any destination befitting a democracy. As President Woodrow Wilson once warned, "We claim to be the greatest democratic people in the world, and democracy means first of all that we can govern ourselves. If our men have not self-control, then they are not capable of that great thing which we call democratic government."

The trouble, of course, is that we are talking more, and thinking less. In consequence, we are becoming more assertive and less reflective, more personal and less rational, more irritable and less understanding. And in the process we are retreating from the realities of our problems instead of facing them in dignity as becomes free men in a self-governing land.

Now prudence impels me, in this assemblage, to steer clear of the celestial heights and confine myself to the earthy fields of business and government. For even in these, as you will see, I have more questions than answers, and more problems than solutions.

One of the often ignored realities about business and government is that theirs is an indissolubly wedded life, although it is not always, and certainly not now, marked by marital bliss. Nor will it become more so if either partner fails to respect the responsibilities and rights of the other. Of course there can be difficulties even in this. As one writer recently observed, "The trouble with the mixed economy.... is that

everybody's responsibility gets mixed with everybody else's. U. S. Steel is telling us what's best for 'the strength and security of the nation' -- and the President is telling us what's the right price for a ton of steel."

Be that as it may, the Government is deeply involved in the conduct of the economy, and it could not extricate itself altogether, even if it were minded to do so. That involvement is in part due to wars, both hot and cold, and in part due to the evolution of a society where mass population alone accounts for regulatory requirements undreamed of in Thomas Jefferson's day. For better or for worse, and for richer or poorer, that involvement is going to continue. But involvement is not the same as absorption.

Obviously, an accommodation between the partners to this union must be reached if the entire household is not to be torn apart and irreparable damage inflicted on the entire family, and all of its friends as well.

I am not wise enough to know where the lines of a practical and enduring accommodation will be found, nor foolish enough to try to draw them here. But I am bold enough to suggest that the beginning point is one established by the ancient Greeks centuries ago as the foundation of civilization as we know it.

As many of you here will recall, in a play written by Aeschylus to celebrate the defeat of the Persians at Salamis, some lines are devoted to the difference between the Greek and the Oriental ways of life. The

Greeks fight as free men to defend what is precious to them, the Persian Queen is told. "Have they no masters?" she asks. "No," she is told. "No man calls Greeks slaves or vassals." And Herodotus adds: "They obey only the law."

That, it seems to me, is applicable today to men in Government and business alike. The law has its mandates as well as its prohibitions.

Amid all the publicity given to proposals to stimulate the economy, and all the attention lavished on the market's decline, it is easy to forget that the American economy today is at the highest level in our history, and it is still moving up. The totals of employment, individual incomes, and corporate profits are at historic peaks, as is the cost of living. Yet, too many people are still unemployed, too much of our business structure is still operating below most efficient levels, and our growing population needs more job and business opportunities.

Growth has now become the focal point of attention in economic affairs, because, if we can increase the size of the pie speedily and steadily enough, everyone can have a slice or a still larger slice, and none will have to yield any of his present share to his neighbors. That, incidentally, is quite a target for economics, which till now has aimed at little more than the allocation of scarce resources.

The American economy's rate of growth in the postwar years has in fact been above the historical average. In recent years, however, the

rate of growth has fallen below that of the more immediate postwar years, and also below the growth rates recorded in other industrial countries. Acceleration is therefore deemed feasible, and much attention is accordingly being devoted to bringing it about. That is as it should be. For, in the establishment of business schools at Harvard and elsewhere, we have long shown recognition that the business process is a rational process, not a mystical or magic one, and we have indicated our faith that men can master and improve it by the exercise of reason, sharpened and clarified by the discipline of objective study.

Few needs could be so pressing at this time as that for rational economic thought. Underscoring that need are such ideas as "only Washington can save us," on the one side, and "someone must save us from Washington," on the other.

But there are other examples of that need. One is a notion, recurrently advanced, that if the Federal Reserve were merely to wave the wands of monetary policy we could have more new homes, more rapid construction of vitally needed schools, hospitals, and other community facilities, more new automobiles, more new highways to relieve the traffic jams we have already, and perhaps more gold in Fort Knox too.

Well, it would certainly be a fine world indeed if, by merely opening wider the spigot of credit, the Federal Reserve could increase the flow of goods and services sufficiently to meet at once all human wants.

If the Federal Reserve possessed such magic, I assure you we would use it. But of course there is no such magic, and all of us will be better off if we do not act as if there were.

Unfortunately, the demand for magical solutions continues, endless and unlimited. Recently, at the very moment some people were rushing headlong to sell stocks, the Federal Reserve was urgently advised by telegraph to make it easier for others to buy stocks on credit, and thus to "save the country from doom." More concretely, it was also proposed that we set a standard ratio of prices to earnings that would fix the price of every corporate stock!

In these proposals, insufficient weight seems to have been given to these considerations: (1) that credit powers were being invoked to cure a price drop that did not stem from credit causes; (2) that using those powers at that moment -- and in those circumstances -- was more likely to intensify rather than to relieve the excitement, and (3) that using them as suggested would have meant bending to a totally different purpose a legal authority granted to prevent the excessive use of credit in stock market transactions.

Is it too difficult to understand that the market for securities is a continuing auction where prices are determined by millions of free people, living in all parts of our country, offering to buy or sell in accordance with their own individual judgments as to their individual needs, wants and abilities?

Does anyone really want to change this process, or the like processes of free and open markets--for food, for shelter, for clothing and the rest -- on which our entire economic system has been built?

Does anyone seriously believe that Americans individually, or as a whole, would be better off, either in terms of living standards or of freedom, if these decisions were centered at one point, and in a few minds, instead of being left to individual judgments over the country at large?

Neither the people nor the Government of the United States have thought so, thus far, and I am convinced they are not going to do so. For one thing, they prize liberty too much for that. For another, they are too aware that the mistakes individuals make in their own affairs may offset one another, but mistakes by wielders of centralized controls are likely to be aggregative and may be disastrous. As has been noted, Nazi Germany was so well organized that it could make only major blunders.

In entering this year into operations in foreign exchange designed to protect the dollar against speculative forays, the Federal Reserve may, I fear, have opened itself to requests at some point that it bring off international as well as domestic miracles.

These foreign exchange operations, of course, cannot do more than help to give us added time to overcome the basic causes of our adverse balance of payments, which lie much deeper. They cannot cure those basic causes, nor can they serve as a substitute for the will and determination



we shall need to take truly curative actions. They cannot conceivably furnish a quick, easy, painless solution to a hard, stubborn and painful problem. But some, I am sure, will expect them to do just that.

A short time ago, a wise and experienced European statesman remarked in my presence that there is great need in the world today for the qualities of courage, patience and faith. In dealing with the hard problems of our times, I think we shall indeed have need of courage, patience and faith, as we shall have need also of the spirit of ceaseless, purposeful inquiry that has marked this great University for three and a quarter centuries.

At this point, I should like to pay a tribute to Dr. Walter Hallstein, who is with us here today. In his service as President of the European Economic Community, he has combined intelligent planning with courage, patience and faith to achieve freer markets and greater productivity and efficiency. We all wish him and the Common Market continued success.

In our country, the responsibility of the Government--and it is a responsibility in which the Federal Reserve shares--is to foster a climate of opportunity that will encourage our people to apply their enterprise and ingenuity in bettering the lot of themselves, their families and their communities, and thus promote the general welfare of the country as a whole.

Within that democratically established framework, it is the responsibility of the individual--and equally so the business firm--to apply his talents and energy freely and fully to the work before him. Thus he can fulfill his potential and, in so doing, contribute to the advance of his country.

We are a republic, a constitutional democracy in which the general welfare is expressed in political procedures, forms, and institutions. At the center of our way of life is the market place, knitting together individual freedom and material progress. I have a deep and abiding faith that the foundation on which our American economy rests is firm and sure.

But much remains to be done, and there is a part in it for all. Let us accept it as necessary and desirable that human activity is diverse, that there is need for the efforts of each of us. And let us proceed in peace to the execution of our separate tasks.

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