

7/22/63

RECORDED IN RECORDS

AUG 19 1963

Interview with William McChesney Martin

Chairman

Board of Governors, Federal Reserve System

Apart from matters bearing directly on the question of peace and war, the most important single development of recent times has been the entry of the world into a new era of vigorous economic and financial competition. With this in mind, I think there are three important goals which we should be trying to achieve: (1) increasing our economic growth, (2) maintaining the integrity of the dollar, and (3) expanding our world trade.

Economic Growth

Growth has become the focal point of attention in economic affairs recently. How much growth there should be is hard to say. I doubt that a magic figure can be set for year-in, year-out purposes.

Although the totals for employment, individual incomes, and corporate profits are at or near historic peaks, 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.

Of course, the goal of increased economic growth would be easy to achieve if we could reach it by simply spending more money, as some maintain. But unfortunately, experience has shown us you cannot spend yourself rich. Lasting prosperity can only come from hard work, producing goods and services which people need and want at prices they are willing and able to pay. At the moment, we have unused capacities in industry and larger levels of unemployment than we would like to have. Why has this come about? It has come about because inflation got ahead of us as evidenced by the fact that at one time in 1957 we were losing more than one billion dollars a month in prices in our gross national product without

additional goods and services being produced for the consumer. The seeds of inflation were sprouting into the temporary over-capacity which we now have.

There can be no question that when business is improving and moving actively toward higher levels, heavy government spending and a budget deficit become fuel on the fire of inflation. In effect, this pumps air into the business structure as if it were a balloon and eventually leads to more serious recession when the balloon pops than would have occurred if the spending had not been indulged in.

Integrity of the Dollar

The second key goal, closely related to the first, is to maintain the integrity of the dollar. Since 1946, the value of the dollar has declined to 65 cents. The resultant higher level of costs makes it harder not only to maintain our competitive position in the world, but also to retain world-wide confidence in our ability and will to maintain the dollar's value. To foreigners, more than to Americans, the dollar is this country's symbol of strength. Most foreigners are well aware of the stern lectures America has given them about their need to have the moral fiber to put the finances of their countries in order. It is only natural that our overseas friends should be wondering if we have the capacity to take the medicine we have so freely prescribed for others.

A trip to the Far East some time ago brought home to me clearly a growing distrust over the future of the American Dollar. I did not think then -- nor do I now -- that the feeling was justified. But it was important to recognize that this feeling existed. Two matters appeared uppermost. One was a conviction that in a fairly short time, but more markedly in the extending future, American goods could find themselves priced out of foreign markets. The second was the apprehension about this country's budgetary deficits.

It would be unfair, I feel, to blame any one administration for our national debt's growth and our currency's shrinkage. Deficit financing has marked many

administrations, and the emergency of war has forced it on many of our presidents. Certainly we are a rich country. And whatever is required for national security and foreign aid, we can afford to spend. But we cannot afford to spend it if we are unable to pay for it in any other way than by printing money. At some point we must face up to the realities of our present situation, i.e., whatever tax revision, tax reform, tax reduction, or, if need be, tax increase, we are currently debating must ultimately produce better business and more revenue or we must cut back on our spending and reduce the priorities of some of our programs.

Expansion of World Trade

The third key goal must be the expansion of world trade. With European countries almost fully restored and with Asiatic and new African nations striving for better standards of living, we simply must recognize that we are living in a more competitive world. In our private enterprise, employers must remember that they are competing with employers all over the world for sales and profits, and employees must remember that they are competing with other workers all over the world for jobs and wages. We must exercise self-discipline, because we cannot afford to be priced out of the market by the wage-price spiral.

Question: What obstacles or roadblocks may arise to keep us from achieving these goals?

Answer: One roadblock is the sniping and bickering we often find going on between business and government about the role of each in the economy. Both business and government have important roles to play, and it is time each one recognized the rights and responsibilities of the other. Certainly the strength of our economic system is based on private enterprise in the free market, but the government is also deeply involved in the economy and could not extricate itself if it wanted to.

Question: How optimistic are you that we will achieve these goals?

Answer: We have no choice but to achieve them or else resign ourselves to eventual economic decay. Our country's reputation as a safe haven for short and long-term investment funds cannot interminably withstand the sort of deficits in our balance of payments which we have had in recent years. And we cannot indefinitely avert a damaging drain on capital and gold resources except by taking actions to eradicate the fundamental causes.

However, we must see to it that the processes of the free and open markets are based on decisions of individuals and not on decisions of a few centralized planners. Mistakes individuals make in governing their affairs are likely to offset themselves, but mistakes by wielders of centralized control are likely to be aggregative and may well be disastrous. For proof of this we need only to look at Nazi Germany -- it was so well organized it could make only major blunders.

#