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**Banquet speech**

**Mr. Carøe:** It is now my privilege and pleasure to introduce to you one of the most widely respected figures on the American banking scene. He is well known to many of our foreign colleagues since he has contributed often to international conferences. As Chairman to the Board of Governors of the Federal Reserve System he occupies a unique and unequalled position in the American financial world. He's long had an interest in international finance for he has served a term of the Exports-Imports Bank and Director of the International Bank for Reconstruction and Development. We are delighted and very highly honoured to have as our guest this evening William McChesney Martin, Chairman of the Federal Reserve Board.

**Mr. McChesney Martin:** Mr. Chairman, Mr. Mills, Mr. Carøe, and participants in this delightful banquet meeting of the International Savings Banks Congress. I am very happy to be here tonight. I always feel good visiting with savings bankers. I think that anyone who's in central bank position these days likes to have a little solace and encouragement in knowing that there are other people who are as interested in preventing inflation as he is. You have a responsibility to your depositors that medium of exchange and as a standard. And we have a responsibility all the central bankers of the world to see that our respective currencies are properly maintained. Now I have been privileged in recent years to have the National Association of Mutual Savings Banks in this country come to the Board of Governors in Washington once a year. This year when I arrived, just a few days before they arrived, before Mr. Morgan brought them down, I visited our Folger Shakespeare Library and I found a list of acquisitions of new books in that cultural institution which impressed upon me the fact that our interest and concern with money, credit and interest rates is as old as the time of Moses and certainly has been with us as long actively as Mr. Carøe's ancestor Alfred the Great. And I jotted down and I read to this group in Washington, and I know they won't mind me repeating these titles, the acquisitions that they had received because it struck me as being encouraging and interesting. The first one they had acquired this year was called "The alteration of the coin with the feasible method to do it" by Thomas Houghton written in 1695. The next one was "Several objections sometimes made against the office of credit fully answered" by Hugh Chamberlain around 1700, and I wish he were still alive because I'd employ him with the Federal Reserve Board. And President Johnson's Great Society was certainly foreshadowed in a book by an author in 1699 which has just been acquired by the library entitled "England's happiness improved, or an infallible way to get riches, increase plenty and promote pleasure". And to show you that we need not fear the future too much despite the forebodings of some from time to time, in 1715, just a few years after the Bank of England was established, a man named John Holland wrote a very interesting treatise which I've thumbed through called "The ruin of the Bank of England and all public credit". Now I want tonight to indulge myself very briefly. I am delighted to be sandwiched between such a wonderful inauguration of a new song and the dancing that will follow. This is the first

experience I've ever had of such a delightful occasion. But if you look back through the post-war period I think you can see the basic problem that we are dealing with today and have been dealing with right straight through this period in my judgment. That is the economics of full employment. We don't know yet how to deal with it. I had the privilege of visiting with Lord Keynes in 1945 and I heard him make a talk to the Joint Chiefs of Staff of this country in which he pointed out that when the soldiers returned from the war our problem was going to be unemployment. I saw Lord Keynes at the Fund Meeting in Savannah some time after that and he told me, and I'm always sorry that he didn't live a few more years, he said "I realize now how wrong I was in that statement, the problem that we're going to face is how to keep inflation from getting ahead of us so that we will not have the inevitable corrections that come while inflation gets ahead of you and you have two or three people unemployed that wouldn't have been unemployed if you had restrained the inflation at the proper time". In large measure I think this has been our postwar problem and we in the Federal Reserve have wrestled with it on several occasions and in 1960 with the coming of President Kennedy's administration in this country there was general agreement that we had relied too much on monetary policies to carry the load of balancing the economy. And I think it's quite significant if you stop to think about it that we only broke the back of the American inflation in the period 1957 to 1960. And when we got the wonderful stability in prices that we had from 1961 up to the middle of 1965 we had the most dramatic growth I think that this country has experienced in many years. And I question very much whether without the stability of prices you will get permanent, sustainable, worthwhile growth and employment. Now I want to bring you up to the middle of 1965. By the middle of 1965 after a remarkable period of progress in this country in which fiscal policy had been brought into play in a very proper way in my judgment, because we were still suffering from wartime taxation and we needed the stimulus of lower taxes, we suddenly were confronted with the realization that our price stability was beginning to get away from us and that we were on the verge, if not at full employment. I want to just give you a little bit of statistical analysis here of the picture as I saw it. I took a course in statistics at Columbia University if you will indulge me for a moment. The only thing I got out of that course was a quotation which I'm very fond of "that statistics should be used as a drunk uses a lamppost, for support and not for illumination!" Now I don't want to indulge that too far but I think it was apparent in calendars that as we came to the end of 1965 in this country that we had got our unemployment rate to very close to full employment, if not at it, and that so far as skilled labour was concerned we had over full employment. And in calendar 1965, our plant and equipment expenditures ran at the rate of about 52 billion dollars and the projection for 1966 looked first 58 billion, then 60 billion, now some people think even higher than that. And along with it we had Government expenditures in calendar 1965 running at the rate of 67 billion dollars projected for 1966 regardless of what the Vietnam war may do if we should have further escalation of it at the rate of 75 billion dollars, and we were facing what amounts to a full employment budget deficit in the phraseology of the new economics of 5 to 7 billion dollars. And the proper way, the logical way,

to deal with a deficit, full employment deficit of this size is not by monetary policies but is by a simple clear cut, across the board increase in income taxes, corporate and personal, however difficult that may be to achieve politically and I am sure President Johnson is aware of this and that he recognizes the problems that are involved. Now as long as you have larger levels of unemployment than are tolerable and unutilized plant capacity, the problem of monetary policy is relatively easy, and you can, however much some people may deplore it, and I think there are some reasons for deploring it even under those conditions, you can certainly invoke deficit finance and easy money as a stimulus to the economy. But the real problem that you have here is that there is such a thing as maximum safe speed and I want to illustrate this for you tonight by a little illustration that came to my attention from a policeman who happens to be a patrol man on a through way. He told me that on the route that he had covered 107 out of 109 people had been killed going 10 miles or more faster than the speed limit. The speed limit on this section of the highway was 70 miles per hour and he told me that when he saw somebody on the radar screen doing 85 miles per hour or over he went out not to arrest that man, but to save his life. To me this is a simple illustration of what's involved in maximum safe speed and I'm not sure that any of us know exactly what the maximum safe speed is, and we ought not to be dogmatic about that. But when you have an economy that is tilting with full employment and is moving along on deficit finance and easy money, certainly the time is at hand to reverse gears and also we must recognize that no Central Bank wants to be put in the position, nor do you, of charging higher interest rates or paying higher interest rates at all times. There's a limit to monetary policy as such, but when there is no other weapon at hand monetary policy certainly has a responsibility because it is vitally important that we keep our money from depreciating. I have listened a good many years to professors who have at one time or another dealt with the cliché that money should be a servant and not our master and they have talked about validating a little bit of inflation, a little bit of inflation is not harmful, of course when it gets to be quite a spiral why then it becomes very harmful and nobody knows just how you turn it off. But I think any of us who have been thoughtful and been around the world are like a friend of mine that I know who is very critical of me because he says "You put the value of the dollar ahead of human life" which is a gross distortion of a position of any responsible central banker but nevertheless one that's popularly held by a great many people. But this young man took a trip in an area of the world where there was inflation rife and he came back and he told me "You know I've changed my mind, I've found out that a depreciating currency becomes your master and not your servant very quickly". And I think this is something that all of us must recall, remember, must constantly work with. Now I want to simply close these brief remarks by saying that you savings bankers have a responsibility, we central bankers have a responsibility, to discharge our stewardship to the people who are entrusting their money to us, both in the loans that you make and in preserving the value of the savings that you are accepting and for which you are paying interest. And I want to say that I have been terribly impressed, the more I thought of this, that this is understood in a good many parts of the world.

Mrs. Martin and I, just two years ago this month, returned from a meeting in Vienna in which we had discussed international liquidity. May I just make an aside on the subject of international liquidity, it's a popular topic these days. Most people are talking about international liquidity all the time, they never think of too much liquidity. Now I'm all for seeing the improvements and reforms in our international monetary mechanism, but we can have too much liquidity as well as too little and I happened to chair a meeting in Vienna and as the meeting progressed we had some very distinguished speakers, Mr. Roser of this country was one, a distinguished professor from Cambridge University was another and after four hours of discussion why, I being in the chair I was faced with the problem of summarizing what had gone on and one of the people who was at the meeting was called on to make a summary, a distinguished New York banker, a man of great capacity, and he said he had listened very intently to this discussion of international liquidity and he'd come to the conclusion that the only way to summarize it was to quote from an American humorist, Mark Twain. Mark Twain had said on a number of occasions that "too much of anything is bad, but too much whisky is barely enough". Now I simply want to say that going from this meeting Mrs. Martin and I went to a delightful little fair in Lausanne, Switzerland. I don't know any little fair that I've enjoyed as much. We came from that to our own World Fair here in New York but we, in some respects, enjoyed that little fair more. But the thing that impressed me in this fair was an exhibit on money and naturally I didn't know about it but I went there and spent several hours going through it and I found it quite interesting but the thing that impressed me the most was that here in Lausanne, Switzerland, at the conclusion of this exhibit was written in French, German and Italian, and they had a little English booklet which I was able to take away, was written in bold letters "Let none of us ever forget that good money is coined freedom". This is something I think all of us should ponder and remember and I'm indebted to that fair for bringing this so forcefully home, and I hope all of you will ponder it. Thank you very much for letting me be with you tonight.

**Mr. Carbo:** Thank you, Governor Martin. We in this room certainly share with you your dedication to a sound, resourceful, responsible financial system. Ladies and Gentlemen the evening is over.