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Summary of Remarks  
by  
Wm. McC. Martin, Jr., Chairman,  
Board of Governors of the Federal Reserve System,  
before the  
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of the  
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The prime challenge we face today, as I see it, is to prove that a free society can have enough wisdom, self-discipline and cohesion to advance the common good in an orderly, sustainable fashion.

What makes it so difficult is that advancement of the welfare of our society as a whole often requires of us as individuals the mutual forbearance of personal advantage and sometimes the acceptance of a degree of personal sacrifice.

Nowhere is that challenge more pressing than in our economic and financial affairs. For there, in the 81st month of the longest period of expansion in our history, we are confronted once more by the very problem that always seems hardest for us to solve or even to face up to, precisely because of the self-discipline, forbearance, and willingness to accept sacrifice that solving it requires.

The problem is, of course, that of maintaining growth by preventing unsustainable spurts, that of keeping overall demand from outrunning our real economic and financial supply capacities and thus generating further severe inflation and its bitter aftermath of recession and unemployment.

In more immediate terms, it is the problem of capping the inflationary pressures--and inflationary psychology--that already have been exerting a disruptive influence in our economy and in our financial markets.

I do not think there is any need for me to dwell on these matters or the dangers involved, and I do not feel any need to take you on another conducted tour of the latest data on economic and financial developments. You are too familiar with the facts for that. Suffice it to say that--even though the visibility of the economy's strength has been partly clouded by the effects of strikes--debate on the economy's course has moved increasingly from whether it will expand further to how much and how rapidly, and with what consequences.

How then, are we to restrain further inflation? Bluntly, the answer is to be found in a moderation of borrowing and spending, both governmental and private, and the most effective and necessary means of accomplishing it is fiscal action encompassing both reductions in Federal spending and a tax increase across the board.

I want to make it clear at this point that the Federal Reserve System intends now, as in the past, to contribute all that it responsibly can toward conditions that will make for an actively employed, productive, steadily growing economy with sensibly stable prices and orderly functioning markets.

But I do not see how it could be any plainer than it is now that those conditions cannot be provided by monetary policy alone. Nor can I see how it could be any plainer that, whatever course monetary policy may follow, there will still be prospects for trouble unless and until our Government's finances are brought into better control.

All of you know that monetary policy has many times been applied to the exercise of restraint, as well as to stimulus, when conditions made it necessary. The question being posed in our economy and financial markets, to which an affirmative answer seems to me long overdue, is when--if ever--is overall fiscal restraint going to be tried?

When a temporary surcharge on income taxes was first proposed last January as a part of the President's fiscal 1968 budget program, to be effective July 1, the amount thought appropriate to the conditions then envisaged was 6 per cent. Since then, it has been felt necessary to up the proposed surcharge to 10 per cent--the figure fixed by the President in his message to Congress in August--largely in reflection of changes in conditions that occurred in the meanwhile. I see nothing in that progression that suggests that it pays us to wait. Yet we are still waiting.

When the President's August message went to Congress, the program set forth was one that aimed--though this seems to have been overlooked or forgotten by many--not only at increasing revenues through higher taxes but also at restraining, cutting and controlling Government spending so as to reduce the prospective deficit in fiscal 1968 and thereafter to more manageable levels.

Since then, many members of Congress have likewise expressed feeling that restraining, cutting and controlling appropriations and expenditures is an urgent necessity, and some have gone beyond the President in setting targets. So at least on the need to reduce Government expenditures we have a considerable area of agreement among those with the power to bring that reduction about, but of course the final returns are not in yet.

I realize that there is some sharp disagreement among those involved--in the Congress and in the Administration--over how much the spending reductions should be, or how they should be accomplished. But I find it hard to believe that disagreement of this kind could be allowed to stalemate any action to cut spending, or to increase tax revenues. We need restraint on both sides of the Federal ledger, and we need it as quickly as it is possible to get it.

This is the richest country that the world has ever known, and it is only fitting and right that we devote large sums to public endeavors. But in our governmental activities, as elsewhere, we must recognize--especially at a time when we are engaged in a major war effort--that our resources are not unlimited. And we must recognize also that we cannot keep on calling upon our governments--federal, state or local--to do things we are unwilling to pay for. If we are to achieve in fact the public goals we feel most useful and desirable, then we must, as a self-governing people, be willing to accept and adhere to some sensible order of priorities among them in accord with the national preferences.

There is no question in my mind about the ability of the American people and their government, pulling together, to overcome every danger that today threatens the continuance of the economic advance that has been going forward now for just three months short of seven years. The only question is whether there is the will to do so.

If the will is there, and it is demonstrated convincingly--as I think it can be by actions of the kind I have been discussing--it seems to me well within our capacities to continue indefinitely on the path of prosperity, with pervasively spreading improvement in the living standards of the entire populace.

But let us not, just because we have had it so long, take prosperity for granted.