"Good Money Is Coined Freedom"

Guest of Honor and Speaker

THE HONORABLE
WILLIAM McCHESNEY MARTIN, JR.
Washington, D. C.
Chairman
Board of Governors
Federal Reserve System

Detroit Branch

Federal Reserve Bank

50th Anniversary Address

BEFORE THE ECONOMIC CLUB OF DETROIT

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Cobo Hall

Presiding Officer

RAYMOND T. PERRING

Chairman of the Board

The Detroit Bank and Trust Company

L. S. BORK

President

The Economic Club of Detroit

(The meeting was opened by President L. S. Bork, who presented Raymond T. Perring, Chairman of the Board, The Detroit Bank and Trust Company, as Presiding Officer.)

RAYMOND T. PERRING: Thank you, General Bork. Reverend Estes, members and guests of The Economic Club:

Many illustrious speakers from all parts of the world have graced this platform in the 34-year life of the Club. But never in my estimation have the members been more favored than they are today. I am sorry that it was the inability of my friend Guy Peppiatt to be here that put me in this position, but I consider it a rare privilege to be able to present The Honorable William McChesney Martin, Jr. to you.

In my capacity as a lowly member of the Federal Reserve family and as a participant in several international monetary conferences and other meetings in which Mr. Martin has played an important role, I have had an opportunity to see him at work and to witness the universally high regard in which he is held. He is every inch a pro, in the finest sense of the word. Everyone — even a flinty-eyed banker — has a hero, and my hero for years has been Chairman Martin.

The Economic Club of Detroit has long had a reputation for uncanny timing . . . *(Laughter)* for bringing up a particular guest speaker or topic at just the right moment. Considering the events of the past few days, I would say that in setting the stage for this meeting, all previous records were broken. In fact, some may feel we've gone a little too far. *(Laughter)* The Club wishes to disclaim any responsibility for closing the gold markets last Friday: that's purely a coincidence. And we had nothing to do with the fog this morning that produced such a dramatic delayed entrance by the Chairman.

Now it's both easy and difficult to introduce a man like Chairman Martin. Because of his remarkable career and impressive accomplishments, a wealth of material is available for a Presiding Officer to draw upon. There is a temptation to pull out all stops and to give full expression to one's feelings about his considerable talents and the vast contribution he has made to the security and well being of the national economy.

At the same time, one is reminded that the greater a man is, the briefer and simpler should be his introduction. Such a man's accomplishments speak for themselves and his prestige needs no embellishing. So I shall restrain myself and touch on just a few things that I think are important before presenting him. As usual, a quite complete biographical summary and personal comments on the speaker are included in the printed announcement.

William McChesney Martin has starred in a number of fields, but his most vital contribution has been as Chairman of the Federal Reserve Board. In a sense he was born into the Federal Reserve System as his father worked in drafting the Federal Reserve Act and served as the first president of the Federal Reserve Bank of St. Louis. William himself worked in the bank examination department of that institution for about a year after graduating from Yale.

Then the brokerage business called him and he became a member of the New York Stock Exchange before reaching his 25th birthday. At the ripe age of 31, he was elected the first paid President of the Exchange, and charged with cleaning up the mess that was left by his predecessor. He succeeded in transforming the Exchange from a sort of a private club to the great public enterprise it now is.

After a brilliant tour of duty in the Army during World War II, he headed the Export-Import Bank for about four years and then accepted appointment as Assistant Secretary of the Treasury. It was the latter post that brought

him full circle back home to the Federal Reserve. As a Treasury official, he helped work out the historic Treasury-Fed accord of 1951, which freed the Fed from its wartime shackles and permitted it to apply its own policies instead of merely supporting those of the Treasury.

President Truman entrusted the carrying out of the reorganization to Mr. Martin by appointing him Governor and Chairman of the Board of the Federal Reserve System. Since then, three other Presidents have had the good judgment to reappoint him, so he will continue in office until 1970.

He began at once rebuilding the Fed, quickly turning monetary policy from a passive into an active tool. Under his leadership the Fed has attained a stature at home and abroad unmatched in the central bank's 53-year history.

Soft-spoken, but firm, he is the arch enemy of inflation and a stubborn fighter for the Fed's independence. Not, as he says, the Fed's independence *of* the Government, but its independence *within* the government structure. There's quite a difference between the two things. Liberals in and out of government have frequently been pained by him, charging that his policies are too conservative. Actually he is more of a moderate than a conservative, if I understand definitions, because of his innovative and imaginative approach to problems. He is a symbol of orthodox money management to businessmen and bankers in the United States and overseas, but he is certainly no slave to orthodoxy. He is a sound money man, but has said he wants interest rates as low as possible, without having inflation.

Economics is far from an exact science and there's much room for difference of opinion and dispute. In his 17 years as Chairman, Mr. Martin has weathered some monumental storms and his colors have continued to fly high through all of it.

Some unnamed writer once said that he was a good man to have around in a crisis. With the mighty U. S. dollar undergoing the most massive speculative attack it has had since the devaluation of 1933, it is certainly comforting to have a man of his stature and integrity tending the store. Gentlemen, I am very proud to present to you The Honorable William McChesney Martin, Jr., Chairman of the Board of Governors of the Federal Reserve System.

(Applause)

WILLIAM MCCHESNEY MARTIN, JR.: Mr. Chairman, Reverend Mr. Estes, officers and directors of the Federal Reserve System attending this 50th Anniversary meeting of the arm of the Federal Reserve in Detroit today:

It's a very real privilege for me to be here. General Bork has made efforts to get me on a number of other occasions and I wasn't always sure that I had anything to say — and I don't like to speak when I have nothing to say. I think I have something to say today, but I will speak informally, rather than present a paper because I think there is nothing duller than reading papers.

I want to start today by making a few general observations, and these really have to do with the timing of the meeting that we're attending. I think all of us know about the gold crisis that has occurred, and the thing that it emphasizes clearly is something that I have stated a number of times before the Congress: that markets don't wait for Kings, or Presidents, or Prime Ministers, or Secretaries of the Treasury, or Chairmen of the Federal Reserve Board; there are inexorable forces that may be controlled for limited periods of time, but — no matter how many economists may try to make fun of it — the law of supply and demand still operates. And you may change the nature of supply and alter the composition of demand, but at some point these forces come together in an inexorable way and have to be dealt with. And I hope that the period we're going through may gradually bring to bear upon people's minds an understanding of the fact that "papering over" — "gadgetry" — "gimmicks"—do not solve problems. That it is fundamentals, not symptoms, that have to be dealt with.

Now I want to go back and relate this as an anniversary meeting to the heritage of our Federal Reserve System, which is part of the economic heritage of this country. We are a republic, a constitutional democracy, in which the national welfare is expressed in political procedures, political forms and institutions. As Disraeli said many years ago — and I consider him one of the great statesmen of the world — "individuals may form communities, but it is institutions alone that make a nation." One of the institutions that has been forged and developed through the evolution of this great country of ours is the Federal Reserve System.

The thing that our forefathers were seeking — and I think this is clearly apparent to students of the Federalist Papers, or of the American Revolution — more than anything else was freedom — liberty. They knew what tyranny was and they knew what the tyranny of clipping the coin was. Therefore, in the early stages of the development of this country, having had experience with the Continental Congress where the phrase "not worth a Continental" had developed, they were extremely careful about the handling of money. And under the Constitution Congress has the power over money, as it rightly should. Americans have been very careful and for many years preferred to risk possible misuse of the money power by private interests than put it into the hands of the state at that juncture. This was their basic philosophy and this was essentially the background of the Federal Reserve System that I'm dealing with in a broad way today.

The first Bank of the United States, the second Bank of the United States, were both banks where the public was represented only in a limited way. And Andrew Jackson destroyed the second Bank of the United States because he felt there was not enough public representation on the board of that bank, although he recognized the convenience and usefulness of the bank as a financial instrumentality. But succeeding money panics laid the groundwork for our taking the plunge into a managed currency and in 1913, following the panic of 1907, we evolved a new instrument — a central bank fitted to our special needs, as other maturing and developing countries have done, before and since.

But we were very careful that this bank should be set up in a way that merged both public and private interests so that neither private interests nor political interests would have the dominant voice. And therefore we have in the Federal Reserve System today, as you all know, 12 banks, 24 branches, a Federal Advisory Council, a Board of Governors in Washington. And this is the 50th Anniversary of one arm of that system — and the emphasis should always be on that word "system".

Our foreign friends have frequently said to me: "We don't really understand how you can operate with all these divisions and all these directors. Isn't this a facade that impedes rather than helps in preserving the currency?" And I think the answer is that although it's difficult at times to make it work, the System does touch the grass roots of the country; and that this is our purpose; and that this is the relationship with the economic heritage of this country.

Now I talked about markets at the start. Ours is a market economy; not a completely free market economy because there have been some necessary changes made in that concept. But I find great difficulties in talking to school children or others in relating the market process to this basic heritage of freedom in the Republic and our Constitution. Everyone responds to freedom of speech, freedom of enterprise, freedom of the press, freedom of religion, freedom of the right to assemble and to petition. Every schoolboy and schoolgirl, regardless of age, has an emotional response to those; but relatively few of them relate this to the economic process by which we conduct our affairs. And too many of them think that this is a totally unrelated activity.

I believe that it's becoming more apparent than ever that we have to have a basis for what

we're doing. Economics — as was hinted in our introduction — can never be a precisely analytical science because it deals with human resources and human nature. And you cannot put these on a computer and you cannot put them into a machine and get precise answers.

I think this is where we have fallen short at times, and what I'm trying to suggest today is that we have to see the workings of this market process and we have to come to grips with problems that we have been trying to push aside and under the table for the last few years.

Having given you this background, I want to go to the period that we are in now. There are really four parts to economic policy: You have the budgetary side of it; you have the fiscal and debt management side; you have the wage-cost-price side; and you have the monetary side. And these are all related in terms of this economic heritage that I've described.

What we're confronted with today is a budgetary problem that's been getting progressively worse. I have said this repeatedly, and I'm sure some of you will have tired of hearing me say it: what we are moving toward gradually is not deficit finance for a temporary period, but perpetual deficit. This is a very sad progression toward undermining the currency.

You start out with the recognition that under certain circumstances deficit finance can be properly used, but it should be used only for the purpose of attaining a balance at some point. And when you have an economy that's overheating, and you still do not want to bring things into balance, you inevitably move in the direction of perpetual deficit. What happens is that "surplus" gradually comes to be a bad word and "deficit" becomes a good word. And this, I believe, has been happening in this country over the last decade.

Several of you have heard me repeat my favorite story of South America, where one of my associates down there—when I was talking to him about price stability—said to me: "You don't see how things operate down here. When prices rise 40%, we fight inflation. When they rise 20%, we fight deflation." *(Laughter)* It doesn't take long to see how this gradually puts a country in a way that not necessarily causes it to collapse—because South America continues to operate—but it has reached a stage of perpetual deficit.

The heart of our budgetary problem—and I have no hesitation in saying this—is that this country today is overextended and overcommitted. There is no incident that dramatizes this more clearly to my mind than the Pueblo incident. We have commitments in Vietnam, we have commitments in South Korea, we have commitments in the Middle East. And if I may say so, the commitments in the Middle East may be the most difficult of all to fill. I am not sure we realize the way the Russians have replaced the equipment that was lost by the Arabs, and the fact that they have put technicians and military leadership into the Middle East in a way that is really quite frightening. That doesn't mean that I'm predicting that anything is going to happen there; I'm just saying that to an observer, the potential seems obvious.

Then, we have these military forces stationed in Western Europe. I don't want to reopen the question of whether they should be moved or not—this is not my field. But I do want to say that we are overcommitted. We are overextended. And this has gradually come to be recognized by most of our friends abroad and by a great many people in this country.

I say flatly that it's time that we stopped talking about "guns and butter," it's time that we stopped assuming that this is just a "little war" in Vietnam, and face up to the fact that we are in a wartime economy. Certainly it's no "little war" for the men on the fighting lines. And when the suggestion is made that we can fulfill all these other commitments and at the same time not in any way change our way of life at home, I think we're doing a disservice to everyone. And I think we've just got to face up to this fact.

(Applause)

On the fiscal and debt management side, it's perfectly obvious that we have to get the Government's budgetary deficit into more manageable proportions. The pressure of the Federal Government on the money market continues to grow in such a way that there is no real opportunity to moderate interest rates as such because the pressures keep growing on and on. Actually we are finding out once again that in this country if you want to have moderate interest rates and low interest rates without inflation, there must be sound fiscal and budgetary and debt management policy. The surest way to get high interest rates — which everyone agrees they're against — is to have unsound fiscal and budgetary policy. This is the way to get 12, 14 and 20 per cent interest rates before it is over.

Now, we come to another point that is crucial in my judgment and this is the matter of the wage-cost-price push. The real problem in Canada and the United States focuses on this point, and this is probably a result of the fact that we have not faced up to being in a wartime economy, in part; and everybody's been ignoring the basic facts.

What we are really up against on the wage-cost-price front is productivity gains in the neighborhood of three per cent or less, and wage settlements of six, seven, eight and nine per cent; and in Canada productivity gains of not much better than that, and wage settlements in some instances of 12 and 15 per cent. This is a gap or a gulf that at some point has to be filled. And while I'm not suggesting how it must be filled, or how eliminated, I doubt very much whether it is possible continuously to pump up the economy so that we can avoid all suffering, all pain, all adjustments, or ignore completely the fact that in times of prosperity and active business we still have waste and extravagance and incompetence and inefficiency — the human nature attributes that I mentioned earlier. That isn't suggesting that I want deflation or that I like deflation or that I think deflation is the only way to handle the problem. But I say these are wage-cost-price developments that we have to face up to.

On the monetary front, which is the fourth factor that I mentioned, I think it's perfectly obvious to any thoughtful individual that when you have substantial levels of unemployment, and when you have efficient, unutilized plant and equipment — and I stress the word "efficient" because this is an age of technological revolution when things become obsolete in six months or a year and need to be replaced; and I'm not talking about inefficient production— that the central bank under these circumstances can create money (if you like the phrase better: "print it") without doing too much damage to the credit machinery.

But that has not been our problem. We have been experiencing levels of full employment, almost over-full employment — I'm not going to argue about whether it's four per cent or 4.3% or 3.5%; but you know what's really involved here. There may be a million and a half of frictional unemployment, and I'm sorry to say there is a lot of unemployment among those, as I think all of us recognize with great sympathy for the individuals concerned, who are unemployable without being retrained or without being given some new understanding and a different perspective to their way of life. You don't, in my judgment, do these people any service by giving them a temporary make-work job of raking leaves. This is a fundamental problem that has to be dealt with.

If under the circumstances I've described, with full employment and with no unutilized plant and equipment that is efficient—this is where these figures sometimes can be misleading if we don't face up to this problem of efficiency— the central bank prints money, there's only one answer: rising prices and continuing deficit. And this is where I think the monetary system has a responsibility at least to bring this to the attention of people.

In 1966 the Federal Reserve was blamed for a so-called "money crunch" because — having delayed too long to raise the discount rate in 1965, when we were arguing over the level of defense expenditures—after we did raise it, there

was substantial disintermediation and a lot of other financial repercussions; and if we had ignored these dangers and followed the pure money supply theorists, I think we could have had 12, 14 and 15 per cent interest rates in 1966. But don't forget, whether you liked or disliked the "money crunch," so-called, it did bring things to a halt in 1966 and it can bring them to a halt again. Whether it is the right way to bring it about or not is another question. But the power is there. And everyone squeals and says, "Well, you shouldn't discriminate against this industry or the other industry." No, you shouldn't; but if monetary restraint is to be effective, *someone* must feel it.

Now these, then, essentially are the facts of life in our economic body politic and I think what we have to face up to as a country is what was being brought home to us in these meetings about gold. Let me point out to you that I happen to believe that the dollar is stronger than gold. I happen to believe that the dollar rests on the productive capacity and the ingenuity and the resources of the United States— not on gold per se. I don't think there is any real question about that on the part of any thoughtful individual.

George Bernard Shaw, who is always stimulating and provocative but in my judgment not always too profound, used to say that if it was a choice between trusting gold or governments, he would take gold any day. *(Laughter)* I have frequently sympathized with him, but I say that in the long run that won't work; it is a government that has to be relied upon. You may have to change governments, you may have to do whatever is necessary; but basically you cannot rely just on a metal for solvency.

Now what has been happening recently? I was involved a week ago and again this past week end with the central banks of the Western World. We have been evaluating this problem of gold. There has not been any great flight from the dollar, but since the devaluation of the pound—where the British people were not willing to face up to these budgetary implications — there has been a tendency for people to assume that the United States was going to go blindly on its way in the same direction. The result is that, whether we like it or not, the world no longer has the confidence in the dollar that it once did. It does no good to say that it should. The fact remains that the world does not have the same degree of confidence for there are people today who are doubtful about whether we have the capacity as a nation to handle our affairs.

We are beset with two very serious deficits: a balance of payments deficit and a domestic budgetary deficit—both of which have run too far and too long. In the balance of payments deficit we have been driven or forced by necessity to the route of temporary expediencies. Whether it was the Interest Equalization tax as the first step, or whether it was the program announced by the President on January 1, we are turning our back on multilateral nondiscriminatory trade which was the basis, the underpinning, of the whole Bretton Woods concept. We are turning our back on it as a means of getting us surcease.

And along with that has come to the community a feeling that there must be some way to get out of this bind of balancing your accounts. There are some of my friends — and good friends — who say the answer is to raise the price of gold, because if we raise the price of gold we can avoid — at least for a few months — the problem of putting our balance of payments in order. I think the time has come when we've got to forget this business of just trying to buy a little time for a few months. Raising the price of gold is not going to solve the balance of payments problem. Raising the price of gold is not going to make our budget more manageable. It's just another gadget, if that's the course we follow.

I don't know what the price of gold is, or would be, as a commodity. I'm well aware of the mystique and the fetish of gold in the world and I have no thought of demonetizing it tomorrow. All I'm saying is that you have to

keep this problem in perspective and recognize that in the long run there will not be enough gold in the world for use as the basis for currencies. All of our foreign friends realize and accept that, including the French. But what the French are saying to us — and here we must not attack the French — is that their diagnosis is that we are not showing any capacity for leadership: that we're not showing any capacity to handle our own affairs.

If I may bring this down to what I think is a common sense approach, I think we have to face up to the fact that the balance of payments program, however necessary—and it's certainly that—is only a stopgap. The program that we have we must make good on, and we must recognize that it is a step backward from freer world trade and free commerce, that is complicated by the fact that we are in a wartime economy and that what we're trying to do here is to avoid our responsibilities to tax ourselves for things we need; to cut our expenditures into a pattern fitted to the cloth of our receipts. We're trying to avoid the necessity of doing this, and as long as we try to avoid it, the problem becomes more difficult — not less difficult.

If I can just briefly put together what my own thinking is on this, as if I were an outsider looking at our country today: Here is a country that prides itself on being a free society: the great free society of the world today. And this is what we are, and this is what we hope to continue to be. But we find ourselves saying that because of our tourist deficit and our direct investment deficit and our foreign exchange deficit and all of our commitments abroad, we simply cannot afford to be free. We simply can't afford it. This is what we are saying in essence.

At the same time that we have aspirations for the Great Society — and I share President Johnson's desire for the Great Society, and I think most of you do, too — we don't have the self-discipline, we don't have the capacity to govern ourselves in such a way that we can be great. We can't afford to be free and we don't have the self-discipline to be great. And this is what is causing the world to be concerned even though it does not underestimate our resources. Let's not forget that we have over $50 billion more in assets invested throughout the world than the world has over here; so there's no real doubt about the underpinning of the dollar, except in the short run. We all know how direct investment returns flow to this country, and how valuable this is to all of us; but you don't liquidate short-term claims with real estate. You can't liquidate a factory overnight.

The U. S. is banker to the world and in light of that I was quite interested when some Senator announced that this meeting in Washington was a terrible thing. "We should pay no attention to these central bankers coming over here. They had no right to criticize us in any way, shape or form," he said. That might be very good for a propaganda line, but the fact is that most of these people are depositors over here today. *(Laughter)* And if you're a banker, you don't kick your depositors in the teeth.

I want to close these brief and informal remarks by emphasizing again that a strong currency is a basic ingredient of a free and a strong society. I was very much impressed not long ago at a little fair in Lausanne in Switzerland when I went in to see an exhibit of money. The exhibit was not particularly spectacular, it wasn't interesting me very much, until I got to the end and there they had a placard on the wall, which had written on it, in French, German and Italian (and in parenthesis in English): "Good Money is Coined Freedom." I'm not sure that we have fully appreciated that over here.

Per Jacobsson, who was one of the people I enjoyed working with most in this area and I think one of the really competent monetary economists and students, liked to tell before he died — and I'm sure some of you here have heard him tell this story — about how he spent four hours with General de Gaulle. He said to him, "General, if you really want to establish France, if you really want France to be the power that you think it ought to be, I tell you that you can't do it without a sound currency." And it was only a few months later that Jacques Rueff or someone else persuaded the General, who I doubt very much (and I'm speaking quite openly about this) is really a student of money, that this was the road to go. A substantial devaluation of the French franc followed and since then they have been trying to return to the old-fashioned gold standard.

The world is not going to return to the old-fashioned gold standard, France notwithstanding. But the world is going to be compelled, whether it likes it or not, to balance its accounts and to face up to the fact that there is a time when each country's accounts have to be put into balance.

Now, a final remark. You will in the next few weeks be reading in the press — particularly if things should settle down for a few days, and I don't know whether they will or they won't — but you will be reading that, after all, this was just a "created" crisis, that there's really nothing to worry about here — we can spend our way into almost any position that we want. I'm sure that you will see a lot of articles to this effect. But the message that I'm trying to bring to you today, as strongly as I can, is that if we take that line, this country is going to go the same way that Athens went. There was a time in the world when the Athenian currency was exported all over the world, and stood as a more important asset than gold or silver or anything else. And yet in Athens' final days of glory, its currency began to be dispersed around the world in such a way that people no longer had confidence in it, or in Athens itself.

Now I'm not a pessimist. I'm only here to say to you that this country has all the resources that it needs; but the time has come for us to stop pussyfooting about responsibility and to face up to the necessity of getting our accounts in order.

(Applause)

RAYMOND T. PERRING: We have a rather sizeable accumulation of questions here. We'll peel off a few of these, Bill, while you have time and energy left.

(Reading Question) "WHAT IS THE LONDON GOLD POOL AND WHO ARE THE MEMBERS? IS FRANCE ONE? IF NOT, WHY NOT?"

WILLIAM MCCHESNEY MARTIN, JR.: The London Gold Pool was organized in November, 1961, under entirely different circumstances than today, with the idea that we could keep a one-price system for gold and that this would be a desirable means of dealing with the fluctuations that were being engendered by speculation. It consisted of the countries that you read about yesterday that had the meeting — and France. France withdrew from the Gold Pool in the summer of last year. I think it was very nice, and I hope that this is a gesture of cooperation, that Minister Debre in commenting on the fact that some of the press said they were excluded from this meeting in Washington, pointed out that France had no right to be miffed; they had withdrawn from the Pool last summer; and that Sweden, Japan and Canada, who were members of the Group of Ten, but not participants in the Pool, were likewise not invited. We invited only the participants in the Pool. Circumstances have changed and I think you have to face up to the fact that at the moment there has been a type of hysteria in the foreign exchange markets. And I believe that there has been a growing distrust of all currencies — not just the dollar; and that this is the situation that has to be dealt with.

RAYMOND T. PERRING: There are three or four questions here that I think we can boil into one.

(Reading Question) "HOW MUCH TIME DO YOU THINK WE'VE BOUGHT WITH YESTERDAY'S AGREEMENT WITH THE INTERNATIONAL BANKING COMMUNITY?"

WILLIAM MCCHESNEY MARTIN, JR.: I wouldn't want to answer a question like this on the time element. If we do nothing about our budgetary problem, if we do nothing about our balance of payments deficit, I don't think we're going to have too long. I think that we're going to do something about it and I was encouraged by the President's comments to a group of businessmen on Saturday. I've had the privilege of talking to the President several times recently and I think he is recognizing the essence of this problem.

But there is no question, as I said earlier, this is an age of gimmickry and gadgets. We've been trying to paper over things for too long. The fundamentals that we're dealing with now are how we handle the two deficits that — regardless of those who say they don't make any difference — are gradually overpowering our capacity as a nation.

RAYMOND T. PERRING: (Reading Question)

"DO YOU THINK IT IS IMPORTANT FOR CITIZENS TO URGE CONGRESS TO HOLD SPENDING IN FISCAL 1969 TO THE LEVEL OF FISCAL 1968 (ON NONESSENTIAL ITEMS)?"

(Laughter)

WILLIAM MCCHESNEY MARTIN, JR.: I do indeed, if you will define nonessential items. I think you all know the problem on expenditures, and it's harder sometimes, I think, to handle in a democracy than in a totalitarian country. I've had the privilege of appearing before a number of appropriations committees and I go away feeling that they are absolutely convinced that something ought to be done, and then they start looking at the specifics a few days later. And then they say, "No, this affects this area; or this affects this Congressman; or this affects this thing." And then you add to this hodgepodge the fact that the mail is running 10 to 1 against!

I just think that at some point we've got to get leadership. I regret very much that the mail in this country runs heavily against a tax increase — and I speak from a personal dissatisfaction on this because I just don't think people understand the necessity for it. I came out in June for a reduction in expenditures and an increase in taxes to deal with what I considered to be a wartime situation and my mail ran 15 to 1 from people saying: "We thought you were an intelligent person. Do you know how much taxes I pay? Do you know the problem in my county?" I just hope that somehow we can achieve more enlightenment than that.

RAYMOND T. PERRING: (Reading Question)

"WHAT DO YOU THINK WILL BE DONE WITH THE NATIONAL DEBT WHEN IT REACHES THE MAGNITUDE THAT ITS INTEREST REQUIREMENTS ARE DEEMED PROHIBITIVE?"

(Laughter)

WILLIAM MCCHESNEY MARTIN, JR.: I suspect it's pretty close to that now. Let me just give you my own thinking on the debt. I haven't changed on this since my early days in the Stock Exchange. I'm not an enthusiast for deficit finance, and I don't like debt in that sense: I've already commented on the word "surplus" and the word "deficit." But I have never really gotten too disturbed about the size of our debt — regardless of its total — when its ratio diminishes in relation to the Gross National Product.

Where I get really concerned is when I see a trend developing, as has been developing recently, where this tendency for the debt to diminish in terms of the Gross National Product begins to look as though it may reverse itself. We have a budget deficit of $21.7 billion projected for 1968 — and I have no idea whether the President is going to escalate or de-escalate in Vietnam; that's not my problem; but from past experience I know every time they've told us defense expenditures are levelling off, they've levelled off for a little while and then they've gone up. The point I'm making here is that in a period when we've had four years of remarkably good business, the deficit has been getting progressively worse. Consequently, unless you believe that some device has been found where we can eliminate the business cycle completely and turn our back on all these human nature elements that I've been talking about, there may come a time when there will be just a normal closing of that gulf on the wage-price-cost front and some economic readjustment. Not a collapse in the economy, but a readjustment. And under those circumstances you will have a budget deficit which now looks like $22 billion to $23 billion for 1968 that could easily become $50 billion, just like that! Now, this is the danger that we have to deal with and I think it's vital that we understand it.

RAYMOND T. PERRING: We've had three or four questions of this sort. We'll boil them down to one.

(Reading Question) "WOULDN'T THE PAYMENT OF OBLIGATIONS TO US BY OTHER COUNTRIES SUBSTANTIALLY RELIEVE OUR PRESENT SITUATION? IF SO, WHY AREN'T WE DOING SOMETHING ABOUT IT?"

WILLIAM MCCHESNEY MARTIN, JR.: We have been doing something about the payment of debts to us. On the French debt since World War II, they've given us prepayments. They're way ahead of their obligations. Now this doesn't mean that their World War I debts are not still possibly collectible. But the framework you have to put this in is that there was a general agreement, not only with respect to France but with other European countries. And suddenly to concentrate on France with respect to World War I debts and not concentrate on Britain, which owes us a great deal more than anyone else, would put us in the position of discriminating against one country. And also we might even get into arguments about whether we ever repaid France the American Revolutionary War debts that we owe them.

(Laughter)

I do not think that this is an answer, but I think it is a valid consideration. I can assure you that Secretary Fowler, a good corporation lawyer, has worked hard on this, and whatever can be done to collect our debts is being done. But this is only one minor aspect of a broad problem. I come back and just want to hammer it home to you to the best of my ability: we don't have to worry about the dollar at all, if we manage our affairs correctly.

If you'll just forgive me for going back, I looked through my notes recently and saw that I had addressed The Economic Club of Detroit on April 13, 1953. The subject of my address, which was a formal one as distinct from the extemporaneous talk I'm making today, was "The Transition to Free Markets." We had come out of the period of the pegged Government securities market. And I closed that address with a phrase that I think is apropos 15 years later. I closed that formal address by saying: "If we handle our fiscal, monetary and debt management problems wisely, we will not have to worry very much about the value of the dollar." And I think that's just as good today as it was then.

(Applause)

RAYMOND T. PERRING: (Reading Question)

"IN YOUR COMMENTS ON GUNS AND BUTTER, DID YOU MEAN THAT OUR COUNTRY'S GREAT WEALTH SHOULD NOT BE MASSIVELY APPLIED TO OUR OWN INTERNAL CRISIS? DO YOU SUGGEST THAT THE WAR ON POVERTY BE ABANDONED?"

WILLIAM MCCHESNEY MARTIN, JR.: Not in the slightest. I think if you want to put it bluntly that we may need a better distribution, a better handling of the resources that we have. This is really out of my area—in a sense I'm getting into politics here, and I don't intend to get into politics, but to impress upon you the seriousness of the budgetary deficit. I'm not sure that this country isn't overcommitted and overextended abroad, and perhaps undercommitted in some directions at home. I think what we have to do is to pinpoint in terms of priorities the things that we need to do. And I think we've been very lax in facing up to that. I haven't the slightest doubt in my mind that what we need here is to come to grips with the distribution of our resources because we're trying to do too much too fast.

Whenever you try to do too much too fast, you have a redoubling of your problem. And it seems to me that this is clearly what our basic problem has been and that we now have to look at priorities. And I, for one, happen to be in favor of foreign aid. I'd like to see more foreign aid — not less. I'm in favor of some of the poverty programs; not necessarily the way they're administered. But I think we ought to do something about a lot of other social problems that we have too. We might have to do it in a different way. We can have better administration of them, though I'm not being critical of any of them for that's not the thesis that I'm here to talk about. I'm simply saying that we ought to be strong enough to increase our foreign aid, to do more in terms of anti-poverty programs and helping our cities. But we have to do it on a sound base of a sound economy. And once the world sees that we have this sound economy and sound base, they'll no longer worry about the dollar and our gold.

(Applause)

RAYMOND T. PERRING: (Reading Question)

"SINCE THE $35 PRICE IS NOT A MARKET PRICE UNDER THE TWO TIER SYSTEM, AND SINCE THE TYPES OF TRANSACTIONS WILL BE LIMITED AT THAT PRICE, HASN'T THE DOLLAR BEEN DEVALUED DE FACTO IN TERMS OF GOLD? IS THE TWO-TIER SYSTEM A FORM OF MONETARY GADGETRY?"

WILLIAM MCCHESNEY MARTIN, JR.: In the sense that it will not solve our fundamental deficits problems, yes, it's a form of monetary gadgetry. I don't think the dollar has been devaluated in terms of gold. I think that's an oversimplification of what has happened. It may be on the road to being devalued in terms of gold, depending on whether we have the will to correct these two deficits I mentioned. This is what we must deal with. This gold problem, I think, comes back to what I said earlier. I don't know what the price of gold should be as a commodity. It has become a standard of value, a measure. This is the evolution of gold and the basis of our credit machinery, as it developed historically from a system of barter. Don't forget that the only time that the dollar was devalued in terms of gold in this country was in 1934 when President Roosevelt was struggling with a price deflation of such magnitude that he was willing to try anything to start prices moving up again. Today we do not have a price deflation in this country or around the world. The thing that we're most fortunate about in this particular crisis—and I think it is a crisis—is the fact that it has come in a period of business expansion and not in a period of business deflation. Therefore, we do have the time and the ability to put this thing in order. And I believe that the results of the central bank meeting just finished will help.

Yet you're going to read about a lot of people making a glib answer and saying, "Well, we've already devalued the dollar." Some people said we already devalued it when we instituted the Interest Equalization tax. Some people said we devalued it when the balance of payments program was drastically tightened on January 1st. And I have accepted all these as gadgets. But we have not, in fact, devalued the dollar in terms of gold and I, for one, am going to stick in here as long as I can, fighting to keep it from being devalued. I think the dollar is something we ought to be proud of.

(Applause)

RAYMOND T. PERRING: This is the last question we're going to ask Chairman Martin and it's a quite practical one. I imagine it's quite important to the person who wrote this.

(Reading Question) "I AM GOING TO EUROPE THIS SUMMER AS A STUDENT. SHOULD I BUY MY FRANCS NOW, OR SHOULD I WAIT UNTIL SUMMER WHEN I LEAVE?"

(Laughter)

WILLIAM MCCHESNEY MARTIN, JR.: I would suggest he wait till the summer.

(Laughter and Applause)

L. S. BORK: I'm very grateful, as we all are, Mr. Martin, for this very, very erudite talk, and to you, Ray Perring, for presiding. The meeting is adjourned.

ADJOURNMENT