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Remarks of Wm. McC. Martin, Jr.,
Chairman, Board of Governors of the Federal Reserve System,
before
The Yale Club of Washington
at its annual dinner
honoring
Charles Carroll Glover, Jr.

Mayflower Hotel,
Washington, D. C.

March 21, 1968

It is a great pleasure for me to be here tonight and to join with my fellow members of the Yale Club of Washington in honoring Carroll Glover.

I'm glad that this handsome "Yale Bowl" memento that the Club is presenting to Carroll Glover is made of silver. I don't know if I could bear to see gold going out in that way.

Of course I have to be careful in making a remark like that. It's always possible that people will find in any comment I make a meaning or significance that was not intended.

It happens. And it happened this very week. Just last Monday, I made a talk out in Detroit for which I had had no time to get anything down on paper--which is not to say that putting something on paper is necessarily a guarantee against misunderstanding.

Anyway, in that speech--and now don't get worried, I'm not going to inflict a repetition of it on the Yale Club tonight--I sought to stress the crucial importance of overcoming the budgetary and balance of payments deficits that lie at the base of the nation's financial difficulties.

Well, that isn't exactly a new subject for me and it may be that I belabored it rather hard Monday, trying to point out that if we didn't take effective steps to deal with these basic problems--and I want here to repeat and emphasize that IF--then there would be serious trouble in store for the dollar, at home and abroad.

But apparently, I didn't get it across, at least not in the way I meant it. Quite the contrary. For the next morning I saw by the papers that what I had done--or so it said right there on newsprint--was to predict that we were "on the road to devaluation." And I didn't notice any IFs, ANDs, or BUTs about it.

Mind you, all this was tied in with a little meeting I attended last weekend--I might say that the membership is somewhat smaller than that of this Club. This was a meeting I had described at its conclusion as a "constructive and successful meeting" because it was precisely that.

Naturally, I made some references to that meeting when I spoke in Detroit. In one of them, I undertook to say something to the effect that the events leading up to that meeting, culminating in an agreement reached at that meeting and announced immediately after it, signaled, I hoped, "an end to an era of gimmickry and gadgetry," and the beginning of an era in which our problems would be dealt with at their base, and NOT just "papered over" by devices describable as "gimmicks and gadgets."

But again, the next morning, there it was in the paper--right in the headlines--that what I'd done was to label the agreement itself as "a form of gadgetry."

Well, I suppose that I was at fault for this misunderstanding. Because of bad weather, I had difficulty in finding a way to get there at all and I was pretty tired by the time I got up to speak. So it may well be that I misspoke. I certainly don't mean to lay the blame on the press.

The press has a vital job to do, that of informing the people here and over the world, and on the whole I think it does its job very well, in trying circumstances, which I must acknowledge that I have contributed to at times, without at any time intending to do so. By and large the press has been very fair, and often generous, in its treatment of me.

But in an incident of this kind everything involved--including off-hand, casually intended remarks--tends to get blown up out of all proportion, once the incident gets rolling.

I am reminded of a story told me by an associate the other day about a young man who turned out as a candidate for the college football team.

He went up to the coach and launched into a recital of all the things he could do.

"I can kick a punt 70 yards against a stiff wind," he said. "Not only can I catch any ball thrown within 10 feet of me, horizontally or vertically, but I can also throw a pass 60 yards with such precise accuracy it can't be missed by our man or caught by our opponents. I can run 100 yards in less than 10 seconds--even on a muddy or snowbound field. And as for making points after touchdowns, I can put a place-kick through the bars, nine out of ten times, from 50 yards out."

The coach listened with interest. "That sounds great," he said. "But tell me, do you have any faults?"

"Yes," the young man replied. "There's one fault. I have a tendency to exaggerate."

As I said before, a great many things do tend to get overblown--one way or the other.

The other day someone said to me, "You've done a great thing--you've saved the gold in Fort Knox." And all I could answer was, "Not at all--you've got me mixed up with James Bond in Goldfinger. And I can assure you that any resemblance between me and James Bond, in respect either to gold or ANYTHING else, is purely fanciful."

I don't want to leave you, however, without making an observation or two in a serious vein.

I don't mean I'm going to talk about the monetary conference last week. I have just illustrated the troubles that can come from that. And as I said in announcing the communique last Sunday night, it constituted the joint, official statement of all the governors of all the central banks that were involved and, because it was issued on behalf of all, no single individual can add anything to it. The statement must speak for itself, and I think it does so quite plainly and clearly.

It seems to me that in our country, the prime challenge we face today is to prove that a free society can have enough wisdom, self-discipline and cohesion to advance the common goals in an orderly, sustainable fashion.

What makes that so difficult of accomplishment 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 personal sacrifice.

In our economic and financial affairs, even though we are in the 85th month of the longest period of expansion in our history, we are confronted once more by a pressing need for self-discipline.

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 have no intention of going into a recital of the latest data on economic and financial developments. Suffice it to say that 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? In plainer terms, 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 temporary tax increase across the board.

I want to say again, as I have said many times, 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 can 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.

When a temporary surcharge on income taxes was first proposed more than a year ago as a part of the President's fiscal 1968 budget program, to be effective in mid-1967, 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 last 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 not only at increasing revenues through higher taxes but also at restraining, cutting and controlling Government spending.

Since then, many members of Congress have likewise expressed the feeling that restraining, cutting and controlling appropriations and expenditures is an urgent necessity, and the Administration seems ready to accept substantial cuts in the 1968-69 Budget. 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.

I realize that there is still sharp disagreement among those involved--in the Congress and in the Administration--over how much the spending reductions should be, and 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 both, 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 over 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.

That is the end of what might be termed, in the circumstances, as public remarks, and I will close now with a few words-- extempore--about our guest of honor, Carroll Glover.