

Participants in this American Society of Newspaper Editors meeting, Mr. Philips, I thank you for the gracious invitation.

I have no manuscript, no prepared text today and I hope none of you will think this is out of disrespect to this group but things have been changing so rapidly that if I had written anything it probably wouldn't have been worth anything by this morning.

I also have been singing the same tune for so long that I have come to the conclusion that it would be easier to find a new audience to listen to it than it would be to prepare a new tune.

So that I have really nothing new particularly to say this morning, but I have a feeling that what I have to say is of some importance, otherwise I wouldn't take your time or mine to be here, because I think we're in a difficult period.

I want to introduce my remarks by a few comments about the Federal Reserve System which I have been privileged to lead for a good many years now and I go back 35 years to a lecture on political science at Oxford University where a noted political scientist was holding forth in a rather dry and discursive way about political science and, particularly, in respect to the United States and I was almost asleep when I heard him say that the United States has produced only two uniquely American contributions in the field of political science.

The first was the Northwest Ordinance that provided for the merger of the colonial wilderness into Statehood and the second is the Federal Reserve System that provided a merger of public and private interest in a decentralized central bank adapted to the American expanse of a large country, a growing, developing country, in a way that is beneficial to preserving the currency of the country.

And this struck me, I was taking notes at the time, and I wrote it down. I had no idea that I'd ever be in this position at the time but I thought about it a good bit since and I've been convinced that there's a great deal of truth in this, that we have in the Federal Reserve System an evolutionary development of the American heritage of recognizing the importance of a sound currency and of doing what's necessary to preserve it.

I know some of you in this group because I see a number of our directors here and we've been privileged to have a number of newspaper people. As chairmen and deputy chairmen of

our Reserve Banks around the country, they have heard me say from time to time that the important word in the title is "System" and we have twelve banks, 24 branches, Federal Advisory Council and 250 directors that cover the entire country, coordinated by a Board in Washington which has authority to pull things together and to make decisions when decisions have to be made.

Institutional Framework

And, although people from time to time have questioned whether anything as cumbersome as this could actually work effectively, I think over the period of the System's life, it has worked reasonably effectively and that it has preserved as far as this is possible in an institutional framework what we need to keep in focus—the importance of currency.

Now, actually I think that we fail to recognize that there is only one agency of the Government that devotes itself full time to the currency of the country and I think we overlook frequently how important that currency is and without developing the theme of evolution from the early days of the country into a merger of private interest and Government interest into this institutional framework of the Federal Reserve System. This was dramatized for me most effectively when I attended a little exhibition on money in Lausanne, Switzerland a couple of years ago and as I came out I saw written in large letters in French, Italian, and German and then, in parenthesis in English, what is a Swiss proverb, "Good money is coined, C-O-I-N-E-D, coined freedom."

And I think if you stop and think about it you will see that there is a great deal of truth in this and that this perhaps has been one of the reasons that the Swiss people have had as much success as they have.

Strong Currency

And, I believe that a strong currency is certainly a prerequisite that I don't have to try to sell to this group as the necessary background to any country that intends to be great.

We also spend a lot of time talking about the desirability of low interest rates and I have repeatedly stated my conviction that we ought to have as low interest rates as is possible to have without having inflation.

I have never been a disciple of higher interest rates, but I want to emphasize as I have tried to repeatedly in recent years if you have unsound fiscal and monetary policy you will inevitably have high interest rates and higher interest rates.

Low Interest Rates

I remember very vividly when I took this position under President Truman back in 1951, having a talk with him at the time and he was talking about the desirability of low interest rates and I was trying to point out to him the problem of a pegged Government securities market.

I said, "Mr. President, you and I want exactly the same thing, but if we have unsound fiscal and monetary policies, I can assure you there is nothing in the wide world that will make it possible for you to have moderate or low interest rates. The history of this through the years is very clear. Unsound fiscal and monetary policies lead to high interest rates and strained credit conditions and this has been a noteworthy attribute of those countries that have followed unsound policies."

I know some of you will forbear my telling my favorite story on this again, on one of our friends in Latin America, explaining the situation in this country. He said to me, "You don't understand the way things are down here. When prices rise 40 per cent, we fight inflation. When they rise 20 per cent, we fight deflation."

Perpetual Deficits

Now, this is the upshot of what I call perpetual deficit.

Now with this as a background I want to analyze for you the situation as I see it in the country today.

★ (Extemporaneous remarks of William McChesney Martin, Jr., Chairman, Board of Governors of the Federal Reserve System before the American Society of Newspaper Editors meeting in Washington, D. C., April 19, 1968. This unedited text was transcribed from a tape recording.)

Since the Summer of 1965, we have steadily and persistently over-extended and over-committed ourselves abroad and, perhaps, under-committed ourselves at home, and we have slowly worked ourselves into a position of what I call growing perpetual deficit.

Deficit finance is not necessarily a bad thing.

But, when you look at the necessity of paying your bills, you have to recognize that there comes a point at which it is important to raise the revenue to pay your bills even though it may not be the most precise and desirable way to either stimulate or retard the economy.

For a long time I think the Ways and Means Committee thought of taxation only as a matter of taxation for revenue only. I think in recent years we have turned around and we think of taxation not for revenue but taxation to either stimulate or retard the economy. And, I think as we have done this we have gradually been put into a position where deficit has become a good word and surplus has become a bad word.

Road to Trouble

And this, I think, is the road to—I will not go so far as to say complete disaster—but it is certainly the road to trouble.

It's the wrong road to be traveling.

Now our budgetary situation today is familiar to all of you.

I am not going to try to go into the technicalities of it but we have had 1965, '66, '67 and part of '68 and all during that period we have had virtually full employment and there may be some argument about the degree of this, but if you take the frictional unemployment and you take the people, and I say this will all candor, that are virtually unemployable unless they are retrained or their perspective in life is changed, you have had, in my judgment, largely a period of practically over-full employment during this period and, certainly, a shortage of skilled labor.

Therefore, we have not been faced with the social necessity of trying to provide employment. Rather, we have been faced with the social problem of developing responsibility, and developing an understanding of the making of permanent jobs and not just "rake leaves" jobs, or temporary expedients.

Intolerable Situation

We start out with a prospective deficit which was part of the tax reduction program of a modest nature and we see this continue up to a point in the year ahead, fiscal 1969, unless we get the tax increase and the reduction in expenditures which is presently contemplated, both of which I

think to be necessary under present conditions, we will be facing a budget deficit in 1969 of \$20 billion plus. I consider this to be a deplorable situation.

It is actually an intolerable situation because, if during a period of the activities that we are presently having, we cannot make any progress toward a balance budget, when in the world will we make any progress towards it, because you cannot assume that always you are going to have conditions such as these.

Now we all know the impact of Vietnam, we all know the impact of a great many other activities that have taken place in the recent period, but here I want to point out that we have been, to a certain extent living, in a fool's paradise.

Because, when you pause and look at the world we are living in, we are no longer living in a peaceful world. We have Vietnam, we have North Korea, South Korea, we have the Middle East, we have five divisions in Germany, we have our French friends not exactly sympathetic to our aims in Vietnam or to our basic policy in several other directions. I am not criticizing them for this, I am stating this as a fact.

Now under these circumstances, the type of cooperation which is necessary for building a foundation for a higher standard of living for all peoples is seriously undermined. And, yet we have been acting as though we could have liberal trade policy and we could move along exactly as though this was completely a cooperative and peaceful world and the result is we have gotten in deeper and deeper, in my judgment, into trouble. And, along with this, of course, has gone an intolerable deficit in our balance of payments.

Reconstruction Aid

At the end of World War II, and as a means of helping reconstruction in the Western World, and as the basis of the cooperation we all intended to produce and to strengthen, we deliberately ran a deficit in our balance of payments in order to have our foreign friends have an opportunity to accumulate reserves as well as to get some needed equipment and resources, and the only trouble is that we kept on at this too long.

If we had really been seriously considering at that juncture doing something on the world monetary system and changing the price of gold when we had \$25 billion of gold, \$24 billion plus, that would have been the ideal time for the standpoint of the United States to have changed the price of gold. We forwent that and we deliberately participated in what I think was a splendid foreign policy program, the Marshall Plan, and we made our remarkable progress throughout

the Western World until, gradually, by the early part of the 1960s, it became apparent that our balance of payments deficit was progressing too long and that the balance of payment surplus of Western Europe was also progressing too long, and that it had become imperative both for the United Kingdom and for the United States, who were running balance of payments deficits, that they move from large and persistent deficit in their balance of payments, move away from it, toward balance and that Western Europe move away from large and persistent surplus.

Obvious Necessity

This was an obvious necessity for mutual cooperation and it was in this framework that the central banks developed a swap network, developed general cooperation centering frequently around the Bank for International Settlements and in the various meetings abroad of the Working Party Three and the OECD, it had been generally conceded that this was the way to pull things together and to get a foundation that we could build on.

We then found very quickly that we were dealing with other basic problems here.

We were, on the fiscal problem, the fiscal and debt management problem, the deficit we were running from the budgetary side, had now gotten so large that it was putting constant pressure on interest rates and forcing them up, in some instances, until it was absolutely essential that we have complimentary fiscal policy, either a reduction in the expenditures or an increase in taxes or both, probably both, if we were to get this budget deficit into more manageable proportions and to have a consistent fiscal and debt management policy that could be manageable and it has gradually become impossible to do this with the recalcitrance on the part of the Congress to face up to the President's request for an increase in taxes, or a reduction in expenditures.

Expenditure Reduction

Now, let me say to this group that I think it has been sort of tragic that, regardless of whether you are on the side that we ought to reduce expenditures and pay no attention to increased taxes, or the side that we ought to increase taxes and not reduce expenditures, that we have been letting the child fall in the middle.

We have been arguing backwards and forwards on this for over a year and the result is that we are in danger of harming the entire body politic, by not coming to grips with what is the basic problem. Now, along with this, and as a by-product in part of the wartime pressures, we start out say-

ing, yes, we can have guns and butter, and this is just a little war, this war in Vietnam—in testifying before the Ways and Means Committee I stated, and I still think it, that one of the tragic things is that we were treating the war in Vietnam, to a large extent, like a baseball game — which we looked in and looked on the side and thought that was a nice game and we took the names of players and who got a home run and who didn't, we saw it on TV, and unless we had someone in our own family or somebody directly connected, I think it's been off in left field most of the time.

Not a Small War

I think now we've come to realize that it is not such a small war, that the inequities of the war are quite different from the relationship of the gross national product to the war.

And to again concentrate on this budget aspect, I have never personally worried too much about the size of our national debt.

A good many of you have heard me say this when, as a ratio of our gross national product it tends to diminish, and I am talking about diminishing in terms of constant dollars. But, when in terms of real dollars, the ratio of our national debt to our gross national product tends to reverse and move in the opposite direction, I think it becomes a basic concern to each one of us and, certainly, we cannot blame our foreign friends who are largely depositors over here today from looking at it askance and saying, well, these people are not managing their currency in a way so that I want to keep dollars indefinitely. I want to use these dollars, not necessarily for reserves, but only where I am sure that I can get value received for them.

Along with this, and this is my point on the wage-cost price front, came very rapidly a decline in productivity—statistically, I don't think this has been measured accurately yet, but I am convinced that our productivity gains are less than 3 per cent today, and our wage settlements have been running 6 per cent, 7 per cent, and 8 per cent and 9 per cent—and in our neighboring country to the North, we have been having even a worse, larger gap between wage settlements and productivity.

This has to be covered in some way.

Serious Deflation

There are some defeatists who say it could only be covered by a serious deflation.

I don't think this is necessarily so, but it certainly can't be covered by a continuous and rising deficit.

And here is where monetary policy comes in and makes its contribution. As long as the savings of businesses and individuals are equal to the requirements for credit, and you do not have full employment, or fully utilized resources, and I say efficient resources, because we are in a technological revolution, where what is efficient today is obsolete six months from now or a year from now so that the figures of plant capacity that you frequently see, have to be weighed at all times against this word, efficient.

If we have relatively full employment and fully utilized efficient resources, and under those conditions the central bank creates money or if you like the phrase better, prints money, I think it can only do one thing, that is, depreciate the currency.

Now this brings me really to the heart of what I want to say today—that we have an intolerable balance of payments deficit, which goes side by side with an intolerable deficit domestically.

Both of these have to be corrected and have to be corrected over the next several years, or the United States is going to face either an uncontrollable recession or an uncontrollable inflation.

Gold Run Problem

Nobody can measure exactly how these forces will be brought together, but I think it is quite obvious that this is the direction in which we will move.

Now, as I said earlier, what I am really talking about here is this problem of the gold run that occurred.

We saw in Britain, for a long time, this dilly-dalling around with coming to grips with either the balance of payments situation or their domestic deficit until finally this November the British devalued and their devaluation, despite the fact that it has been foreshadowed by temporary papering over for a period of nearly three years, was a shock to the Western world, and it placed immediately a strain upon paper currencies all over the world.

Within a week of the devaluation of the British pound, there was not a flight from the dollar, actually the flight was from the pound into dollars to get gold.

The flight was from other currencies into dollars in order to get gold.

It was a general deterioration, disintegration of confidence in paper money generally, and this precipitated the first gold rush that we had following the pound and this was resolved by the gold pool at Frankfurt, where Under Secretary Deming did an effective job of pulling the gold pool together and saying that it is essential that we deal with this problem.

Weren't Sympathetic

But, the thing that came out of that meeting, and was clear was that our Western European friends were not really trying to unhorse or unseat the dollar—the French perhaps excepted, I won't go so far as to say they were doing it deliberately, but certainly they weren't as sympathetic to our plight as others, this was not really the problem.

What the problem was that they were beginning to lose confidence in our ability to handle our affairs saying the United States is going to follow the same pattern that Britain has followed. And that unless you take steps to get your balance of payments in better shape than it is now, we don't want to carry dollars in our reserves to the extent that we are presently carrying them.

Well, after that meeting, why, we had a session with the President and Secretary Fowler and myself and went over this situation and it looked like the situation had stabilized slightly and, to a certain extent, reasonably, and then we were up against right away the fact that all sorts of Congressmen and others who were sympathetic, who had been more or less sympathetic to reducing expenditures and raising taxes, said, well, see the problem is all settled, nothing to worry about. You have had an agreement at Frankfurt. We can just go on with business as usual, and we don't have to worry about it.

Well, as this floated back to our European friends, we had another gold run. And, despite Secretary Fowler's and my efforts to make some people on the Hill realize the importance of this, and I think they do, the battle between those who wanted to recognize the importance of our deficit, said well we can't do it this way, we must do it this way and we couldn't get any agreement and so another gold run developed.

This was pulled together at a meeting in Basle in the first week in December.

Heading for Trouble

And here, we lost about \$400 million in pulling it together, but we finally stemmed it and then we realized that we were heading into more trouble and so, on the telephone, I got together with the central bank governors of the Western powers and said to them, "We are aware of the fact that we have an intolerable balance of payments' deficit and we have an intolerable domestic deficit and steps are going to be taken as rapidly as possible to correct this."

And, having stated this, why, they agreed to continue in the pool operations, and I was in touch constantly with this group and the Common Market group were prepared to monitor their transactions in such a way that even though it was painful to them, they would face up to our taking the steps that were offered to the public and to them, if you want to put it that way, in the balance of payment program of the President on Jan. 1st.

Now, let me say a word about that program.

That program is definitely a step backward. It is not consonant with the principles of Bretton Woods, multi-lateral, non-discriminatory trade and convertible currencies.

Cut to Ribbons

It was forced upon us by the exigencies of the situation and by the fact that for over a year we had been trying to get a reduction in expenditures and an increase in taxes to get this budget deficit into more manageable proportions. And we have been constantly cut to ribbons by the people who said, well, you might precipitate a recession or a depression and the people who said, well, of course, this is desirable but you have to do it this way, you can't do it that way, and the people who were for expenditure reduction across the board, but when it came to a specific item were against doing anything, and under these circumstances we were more or less compelled to go forward with this step backward so far as freer trade and progress toward a better foundation for a higher standard of living that I believe was evinced in the stop-gap program produced by the President in which I participated fully on Jan. 1st.

Interesting Illustration

Let me give you an interesting illustration of this by saying that one of my best friends, who has known me for many years, got in touch with me and said, "I never expected to see you sell us down the river on these controls. I don't intend to curtail my traveling and I don't intend to see direct investment curtailed in any way and I just think it is utterly outrageous. I never thought you would participate in anything like this."

This was a very good friend of mine and I said, "well, what would you have done?."

"Why," he said, "I would have gotten a tax increase. I would have reduced expenditures."

"Well," I said, "what in the world do you think we have been trying to do for six months?"

I think in the course of the last year—and I don't think the Federal Reserve ought to be in politics as to what the specific cuts ought to be, but I do think the Federal Reserve has a responsibility with everyone else in the Government to point out the disaster, the disastrous effects of a perpetual deficit, both in our balance of payments and in our domestic economy.

I think this is something that we have to do and that this is not politics in the partisan sense that some of you think of it.

Keep Focusing

I think it is absolutely vital that we keep focusing on this problem in a direct and in a sensible way.

Well, we then found in the course of another six weeks that we were in the midst of another gold run.

And, in the six weeks preceding this gold run, again we found that the pressure on Congress to do anything, which had intensified with the devaluation of the pound and with the first two gold runs, was now beginning to get even worse as they found that the balance of payments program that the President had announced was not being terribly effective.

Not ineffective so far as the actual items under control were concerned, that is direct investment in tourist trade and so forth, but ineffective on the basis of it, which is the current account.

A current account surplus that the United States had up to \$7 billion in 1964 had run down by the fourth quarter of 1967, to where it was less than \$4 billion and, if you excluded foreign aid from it, it was virtually no surplus at all.

Bit of Statistics

And you say, why did this happen and how did this happen?

Let me just bore you with a little bit of statistics, part of the reason for its happening and happening so quickly was the fact in the third quarter of 1967, we had inflation in this country to the tune of an increase in the Gross National Product of \$16 billion, over half of which was lost in prices. And in the fourth quarter, we had another increase in the Gross National Product of \$16 billion plus, over half of which was lost in prices. And in the first quarter of 1968 which is just closed, we have a very dramatic record increase in our Gross National Product of \$20 billion plus, not quite as bad a record on the loss of terms of price but nevertheless serious enough so that our competitive position is undermined and this has brought about all the protectionists' sentiment which you see throughout the land today.

This has brought about the steel people, the textile people, and others wanting to revert from the liberal trade policies that had been developed so satisfactorily through the years to direct quotas and tariffs and regulations of this sort. And I am surprised that it has not risen more than it has and yet, despite this period, we have had a united Government position on this. We have had the President, you may quarrel with details, you have had the Council of Economic advisors, you have had the Treasury, and you have had the Federal Reserve Board, all in their individual way doing the best they can do to tackle this deficit.

Now, I concede that I would tackle it differently than some others.

And I might have more emphasis on one thing and another, but I have reached the point, and I have supported it as vigorously and actively as I can, publicly and privately, I have reached the point where I just don't want to see the country go into the difficulties that I can foresee, coming not right away, that are going to be brought about by failure to deal with this.

We are in the midst, and I say this — I am not speaking off the record, I am speaking on the record — we are in the midst, in my judgment, of the worst financial crisis that we have had since 1931.

This is distinct from a business crisis.

Now In an Inflation

The difference between the financial crisis of today and the financial crisis of 1931 is that we are now in an inflation. In 1931, we were in a deflation.

It is, in some respects, harder to do things when you are in an inflation than it is when you are in a deflation.

I remember the 1931 period very well because I went on the floor of the Stock Exchange the day that England went off the gold standard and everything was pandemonium around the place and it was the end of an era in one sense, but it was basically a period when you could see that there were fundamental changes taking place. And it was not hard to make changes.

It was easier to make changes under those conditions, the conditions of deflation, and distress and want than it is today when things are going high, wide, and handsome in a great many directions and what you are talking about is something that may be a year or 18 months ahead. Recently, I had a very interesting discussion with a very intelligent Congressman who said to me that I agree with your analysis just 100 per cent; I am sorry that I have to vote against the tax in-

crease, but I think what you are talking about won't occur for another 18 months and I want to be in office when it occurs.

Really Distressed

I hope that the electorate is not that dim-witted, I'm not sure that he may not be right but I was really distressed to hear him put it in those terms. I think this is where you have the test of democracy. We are a rich people, we can afford to do most of these things if we are willing to pay our bills, but if we assume that, because we are rich, we can ignore the necessity of paying our bills, I think we all know where we will end up.

Now I have been wrestling with this for so long that perhaps I have gotten a bit jaundiced on it, and I want to make very clear to this group that I am not suggesting that the world is going to come to an end if we are forced to the point, and God forbid, that we have to take more drastic action, but I want to say that it has been touch and go and I have been distressed by the feeling of a great many people that you can sweep these things under the rug.

Third Gold Crisis

When March came along, and we were in our third gold crisis, serious gold crisis, with the support of the President and the Secretary of the Treasury, I went to the Bank for International Settlements in Basle and I spent two days talking to my counterparts there and I did nothing to promise them that anything was going to be done here. And they were very careful, they said to me why we read where some Senator says we should not give any advice to you people at all and I said to them, well, yes you shouldn't give us any advice, perhaps, but you are depositors and the banker doesn't kick his depositors in the teeth. I'd like to get your advice, I'd like to know what you are thinking. And after two days, we recognized that the British were up against the budget problem on March 19th, that something had to be done with them, they have a problem of expenditures, and that we still hadn't been able to do anything, we had a gold cover that we were trying to get removed and which we did get removed by two votes, but this gold cover removal was only one item of the three things that were necessary.

Budget Priorities

We needed to have a reduction in expenditures that would put this budget in terms of priorities, in a better situation that it is now.

And, we needed to get an increase in taxes to cover, to help reduce the budget deficit of over \$20 billion to the neighborhood of less than \$8 billion.

Some of you will say, and some people have said, but, my gracious that is only a debt, we still have an \$8 billion deficit.

The problem here is the trend.

What I ran into with the central bankers is the trend is what worries us.

And, they said we don't expect you to balance the budget overnight. We don't expect you to correct your balance of payments surplus to the dollar overnight, but this constant trend in one direction simply disturbs us to a point where we say to you, kindly, and I said this to the President as directly as I could, unless we reverse our trend, our current trend, on the balance of payments, it will inevitably lead to world-wide devaluation of currencies.

This is not a disaster story. The world would not come to an end if we did that. And there are some academic economists that would like floating rates. But, I think it will be the greatest setback, financially, that this country has faced, certainly in my lifetime, and I think it will take us a long time to recover from it.

It is going to be a long time before we will be in the position that we now are where the dollar is the counterpart of a great power—diplomatic, military economic. I go back to my studies in finance and I remember the day of the Athenian owl.

Commanded Respect

It was an export currency that commanded respect all over the world.

I remember my studies of the decline and fall of the Roman Empire.

I am not trying to be dramatic or engage in histrionics. There was a time when the Dutch guilder had a position that was pre-eminent around the world. And, only recently, the British pound has been in a pre-eminent position and today it is gone.

Not only is the empire gone but as a counterpart of it, the pound is gone, and there is only left the American dollar.

Now I am not suggesting to this group that it is necessary for us to devalue the dollar.

As a matter of fact, if I thought that I would probably quit my job.

I think it is up to me to stay in and fight to the last ditch to preserve this dollar.

And I hope that there are some of you in your spheres of influence that will take this as seriously as I do.

I don't want to take myself too seriously. That is a very easy thing to do in a position like mine and I want to act responsibly.

I don't know what responsibility really is in a position like this.

I have tried to make my position clear.

Over a period of time, I think there is a disposition on both sides of the aisle in the Congress to face up to this problem.

But, I'm convinced that we can't go on indefinitely trying to sweep this basic problem under the rug.

Now, here we come to the test of a democracy.

Many years ago, the totalitarians and others have said that democracy isn't capable of handling its own affairs.

It won't deal with this sort of problem.

Mutual Cooperation

I refuse to be that skeptical, but I say that in this matter of a world financial mechanism that it requires mutual cooperation and it requires understanding.

When we came to the meeting that established the two-tier gold system, here in Washington it was apparent that our counterparts were not anxious to embarrass us. They fully realized the difference between gold as a commodity and gold as a standard.

I don't know what the price of gold ought to be as a commodity. I say to this group that I studied it off and on for a long time and I happen to think that it is less than \$35 an ounce as a commodity, whatever artistic and industrial value it may have.

But, I don't think you can separate it from gold as a standard, and gold as a standard is an evolution from barter and it has become the cornerstone of our monetary expansion of our credit base.

I have no expectation that gold will be demonetized in the near future.

I see no reason why it should be.

What we need is a supplement to gold, not a substitute for gold, and in this the Stockholm meeting which culminated after meetings in The Hague and two meetings in London and in Rio, brought under the expertise of the International Monetary Fund, a conscious and deliberate means of creating, on a joint mutually basis where everyone can participate to the extent they want to participate, a new unit of account that can circulate between central banks as a supplement to gold, not as a substitute for it.

Most Helpful

And, this is the most helpful thing that has developed.

Secretary Fowler did a remarkably good job, in my opinion, at Stockholm, because the French were putting themselves in the position—if you read Minister Debres statement—they were putting themselves in the position of saying, “our diagnosis of your situation is that you don’t have the capacity and ability to handle your own affairs. If you demonstrate that you have that ability to manage your own affairs, then we will join with you.”

In other words, they were putting themselves with one foot on first base and home plate, too, and keeping themselves in a position where they can join up if there is an indication on the part of the United States that we are going to come to grips with this problem. Now for the last 4½ or 5 months, we have been following a more restrictive monetary policy.

Another Step

Yesterday, we took another step in this.

We have done it gradually, effectively, I think, persistently, and I think we have tried to do it in a way to avoid the so called crunch of 1966 and I believe it can be of help.

I think that if we had had this dealing with our budget and our balance of payments deficit a year ago, six month ago even, it would not have been necessary to have as restrictive policy as we presently have. I’m not suggesting that if we get an increase in taxes and a reduction in expenditures tomorrow that we can automatically have an easier monetary policy the day after tomorrow, but I am saying that, without this, I’m making a plea that we have to do something about this. I see no way that monetary policy, unless you want to bring the economy to a complete, grinding halt which nobody wants to do, I see no way how monetary policy can change a more than \$20 billion deficit that is getting progressively worse.

We have got to reverse that trend.

Now, there is all sorts of room within priorities how this can be done.

We have to space a lot of things out differently. And I know the difficulties, the political difficulties and the economic difficulties of some of this

Not Impossible

But it is not an impossible task, and I just believe down deep that the American people, when they really realize what’s involved in this, don’t want us to go through a gold crisis which will compel us to continue to siphon our gold out, and the meeting that we had here of the two-tier gold system was predicated on the faith and the part of the participants, that the United States, and Britain to a lesser extent, and other countries, were going to do a better job than we have been doing in the past and putting their own affairs in order without just assuming that because they were rich, providence would take care of them .

A Financial Crisis

Now, I have wasted some of your time, and perhaps with this, but I feel very strongly about it I hope I’m not emotional about it, but I honestly and truly believe that this is a crisis, a financial crisis that isn’t understood by the public.

I’m not sure that it can be put in terms that the man on the street understands per se.

Your’re better at this than I am.

But, I think you probably understand it and what I want to leave with you today is, as far as the Federal Reserve has any ability or capacity I want to assure you that we’re going to do everything at our command, everything we possibly can, to see that the American dollar stands high and is something we can be proud of.

This is really all I have to say.

I have taken a long time to say it but I tried to keep it in the perspective that the runs that we have been having, each one of them, has been followed by the same sort of thing that has followed the meeting here in Washington when an individual called me up after the first two weeks of publicity on it and said, “Isn’t it wonderful? That’s a great job you did. You’ve solved that problem.” Well, I can assure you that this is the exact replay of what was going on in Britain in the last two or three years and I just hope and pray that it isn’t going to happen here. Thank you very much.