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Observations

From remarks of

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Chairman, Board of Governors of the Federal Reserve System,

before the

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Our nation--as I hardly need mention--is again in the final phase of the quadrennial rite of choosing its national leadership for the next four years. And as always, the marketplace--not merely here in the United States but abroad--is seeking to anticipate the significance of the election outcome, whichever way it goes.

The state of the national economy is naturally of great interest to the people and therefore to the Presidential nominees. We all welcome the broadening of general interest in affairs economic.

However, I am prompted this evening to reiterate, as I have during other political campaign seasons, that the integrity of the dollar is not a partisan matter.

When we deal with the sovereign currency--the nation's money--we are, I would remind you, dealing with the full faith and credit of the United States. This is why a central bank must never, at any time or place, become engaged in partisan debate, nor inadvertently make itself a tool of political partisanship.

As events of the autumn of 1967 and spring of this year demonstrated once again--to peoples of other nations, even more than our own citizens--the dollar is symbolic of this country's strength. It is a symbol of more than merely financial power or productive strength: it is a measure of our strength of spirit, our capacity for innovation, and our managerial ingenuity.

This is so because our money is, indeed, what Marshall McLuhan calls a metaphor. Professor McLuhan may seem an unusual authority among bankers, but his nonbanking reflections emphasize our money's extraordinary potency.

"Money talks," McLuhan observes, "because money is a metaphor, a transfer or bridge. . . . Money is a language for translating the work of the farmer into the work of the barber, doctor, engineer, or plumber. As a vast social metaphor, bridge, or translator, money--like writing--speeds up exchange and tightens the bonds of interdependence in any community."

For the central banker, this poses a greater challenge than perhaps at any time in history.

So I repeat my point that the process of protecting our national money, protecting its integrity, simply cannot be a partisan issue.

When we speak of "confidence," of "full faith," of "credit" in the original sense of trust and honor, of "value," we are dealing with qualities of the human spirit.

When we look back at the performance of our economy over the last generation, we see gratifying economic growth but we also see some uncomfortable signs. In the three decades since World War II began, let us note that the purchasing power of the dollar has been cut by more than half. However gradual, dollar erosions of this duration are bound to leave cumulatively poisonous effects in their wake.

As a people, we do not construe safeguarding our nation as a point of partisan dispute. So neither must we underestimate the defense of the dollar as a nonpartisan national imperative.

Now, obviously, people differ in their choice of national goals. This is what the political process is all about. And certainly, the central banker has no special psychic insight or unimpeachable incantation to guarantee instant and eternal achievement of a goal that can be reached only if all of us want it and are willing to work for it.

In my view, it would be grossly unfair and unfruitful besides to single out any one cause for the shrinkage of our currency's purchasing power. That liability must be shared by all of us, just as the need for major efforts to arrest the tendency will require the vigor of each of us.

Too much deficit financing which has imposed so great a load on our financial institutions is the result of cumulative events over many years. And the emergency of war or other threats to our collective security has forced it upon many of our presidents, with inflationary consequences that were difficult, if not well nigh impossible, to prevent.

But we cannot continue along this path indefinitely without risk of grave injury to our domestic economy and to our international balance of payments.

Whether the high potentials of our economy are realized over the long run will depend on the entire range of private decisions

and public policies. Together these will determine, on one hand, whether incentives are adequate to encourage continuing economic growth and, on the other, whether we can avoid the excesses of inflation, which produce only phantom growth.

That one word--incentives--I think is crucial. Regardless of the walk of life from which we come, or the sector of activity from which we derive our livelihood, the strength of our currency and the stability of our financial institutions are basic to encouraging this nation's continued productivity and nurturing the ingenuity from which we have in the past derived our unexcelled vitality.

And here I would like to dwell for a moment on the institutions which contribute to the financial vigor of this country.

There are two facts of economic life today that are often forgotten or passed over even though most of us would say they're so basic that they're self-evident.

Fact One is that there can't be economic growth without capital from somewhere.

Fact Two is that capital from almost anywhere is scarce today--the world over.

This nation's financial institutions--the investment banking houses, the commercial banks, the savings institutions--have evolved over the centuries as intricate but marvelously effective devices for accumulating the wealth that comes from productivity of

the people and putting it to use--and in the process providing the incentives for further accumulation of wealth and productivity.

We Americans today could not have our system of mass production, distribution and consumption--in short, our present high-living-standard, high-employment economy--if it were not possible and advantageous for business enterprises to assemble large aggregates of capital through the securities markets by pulling together the scattered savings of individuals.

And this in no small measure hinges on the existence of incentives to both the institutions and individuals gauged by a currency that makes saving and investment worth while.

This country is a republic, a constitutional democracy, in which the general welfare is expressed in political procedures and forms. And at the center of our way of life is the marketplace, tying together individual freedom and tangible--if you please, material--ownership. Our basic thinking continues to recognize the strength we derive from the right to own private property, to compete freely in our enterprises, and engage in creative, productive labor.

These things, I submit, are the elements that combine to distinguish us from our ideological adversaries. These are the things that distinguish the American way of life--the way of individuals working together to advance their individual lot. Our adversaries would make the State the complete arbiter and beneficiary of the endeavors of its citizens. This is a difference we cannot afford to forget.