

William McChesney Martin, Jr., Papers

Box 20/Folder 8

Series V, Subseries A

Media, 1951-1979

This article is protected by copyright and has been removed.

Author: Sidney Fish

Article Title: No End Seen to Uptrend in US Wages

Journal Title: Journal of Commerce

Date: September 26, 1969

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Author: H. Erich Heinemann

Article Title: Nixon Adviser Challenges Flexibility Proposed for Foreign Exchange Rates

Journal Title: New York Times

Date: September 26, 1969

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Author: Semple, Robert B. Jr.

Article Title: Nixon Seeks Link in Social Security to Cost of Living: Asks 10% Rise in Benefits March 1 and Automatic Increases in Future Tax Rate Would Go Up: Peak of 5.1 % Is Urged for 1971, With \$9,000 as Top Taxable Wage

Journal Title: New York Times

Date: September 26, 1969

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Article Title: Continuing Expansion Of US. Economy in'70 Sighted by Economists: They Expect Slower Rate of Gain, In 1st Half; 5.2% GNP Growth, Loan Fee Drop Also Forecast

Journal Title: Wall Street Journal

Date: September 26, 1969

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Author:

Article Title: Top Johnson Economist Makes Plea for Revival Of Wage-Price Guides: Okun Says Nixon Risks Sacrifice Of Prosperity; Sen. Harris Calls 'For Presidential 'Moral Suasion'

Journal Title: Wall Street Journal

Date: September 26, 1969

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Author: Slevin, Joseph R.
Article Title: Bitter Pay Clashes Loom In '70
Journal Title: Baltimore Sun
Date: September 26, 1969

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Author: Shanahan, Eileen

Article Title: Ex-Treasury Aide Says Reform Is Negated by Nixon's Tax Bill

Journal Title: New York Times

Date: September 26, 1969

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Article Title: House Panel Backs 5% Interest Rate for Savings Bonds

Journal Title: Washington Post

Date: September 26, 1969

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Article Title: Pessimistic Picture Is Painted For U.S. Budget by Economist:
Harvard Professor Foresees 3 Years of No Surplus— : Then
Rising Potential

Journal Title: New York Times

Date: September 26, 1969

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Author: Kraus, Albert L.

Article Title: Confidence in Federal Policy Is Found to Be Strongest in Young Economists

Journal Title: New York Times

Date: September 26, 1969

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Author: HERSHEY, ROBERT D. Jr.

Article Title: Reserve Keeping Tight Credit Grip: Loan Rates Climb Further, Weekly Report Shows

Journal Title: New York Times

Date: September 26, 1969

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Article Title: Money-Supply Seers To Get Another Curve From Federal Reserve Third Version of '69 First Half To Show Supply Rose at 4.3% Rate, Faster Than Indicated

Journal Title: Wall Street Journal

Date: September 26, 1969

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Author: Trimble, Vance

Article Title: An Incensed Official

Journal Title: Scripps Howard Washington Bureau

Date: 1969

This Cartoon is protected by copyright and has been removed.

Artist: Crockett, Gib
Cartoon Caption: Fancy meeting you here, Mr. President
Journal Title: Washington Star
Date: 1966?

H.S.T., House Banking, April 14, 1958

...First, I wish to say I think the present recession is very serious. It is serious not only in terms of hardship and suffering for millions of our people who are unemployed, it is even more serious because it weakens our ability to meet the dangers and challenges which threaten us from abroad...

...Secondly, we ought not to underestimate the nature of the job that must be done or the magnitude of the measures that will be required to do it. It is necessary not only that we stop the recession, but we must also restore the growth of our economy.

...I think the root of the difficulty is that we have departed from the philosophy of "maximum employment, production and purchasing power" set forth in the Employment Act of 1946. In place of this philosophy, there seems to be some strange notion abroad in the land that prosperity today would be dangerous for tomorrow -- a strange notion that if we had full employment and full production that somehow this would cause an explosion that would blow the economy apart and end up in a depression that would curl your hair. I

In discussing economic problems, we should never forget that what we are really dealing with are human problems -- human problems of a very important kind. In combatting inflation and deflation, as the Federal Reserve does with equal vigor, what we are really doing is combatting human misery that springs from economic causes.

To speak of the present recession as serious is not enough. Every recession is serious: this one and all the others that preceded it. The best time to recognize that fact is before a recession starts, for the best way to fight a recession is to fight the inflation that precedes it. When the next economic turn comes, as assuredly it will, let us try harder to remember that -- and act accordingly.

Today we are concerned, and properly so, with fostering the recovery everyone wants from a recession that nobody wanted at all. That's fine. But let's also keep in mind that, vital as it is to achieve recovery, it is even more vital to insure that it will be a recovery that lasts; a recovery that does

do not understand this. I do not see why our economy cannot grow and continue to grow, and without inflation. I ~~should~~ see no need for periodic downturns when people are put through the wringer, and I see no reason why our plans and policies ought not to be directed toward a constantly expanding economy and toward the prevention of recessions altogether. We might not be altogether successful in preventing economic downturns, but at least we can make that our goal and not try to brush recessions aside by pretending that they are a good thing.

...

not merely provide jobs, but lasting jobs. Hence the task before us is not finding artificial stimulants that will bring an upturn next week, and collapse the week after, but laying the basis for a sound prosperity that will endure.

We must apply to our problems good sense as well as good will. We must recognize clearly that enduring prosperity is not brought about merely by more and more spending -- ^{as} ~~we~~ our current troubles ^{attest} ~~testify to that.~~ Lasting Prosperity can come only from more efficient production and distribution of goods and services at prices that people are willing and able to pay. It has to be earned. It can't be provided as a gift, by the Government or anyone else. By fostering conditions conducive to prosperity, the Government can help a lot. But it can't do it all. That is why the Employment Act of 1946 pledges the Government's efforts to create and maintain "conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing and seeking to work." And it is why the same Act says the Government's efforts to that end shall be applied "in a manner calculated to foster free competitive enterprise and the general welfare."

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Article Title: The Federal Gift Tax Explained

Journal Title: Taxes and Estates

Date: November 1966

U. S. TREASURY DEPARTMENT

DATE 7-16-68

TO Chairman Martin

Bill

Here is the news
conference manuscript on
the old questions

F.D.

FREDERICK L. DEMING

EXCERPT FROM SECRETARY FOWLER'S PRESS CONFERENCE HELD ON MONDAY, JULY 15, 1968.

REFERENCE: REUSS-WIDNALL STATEMENT ON GOLD

QUESTION: Mr. Secretary, are we moving toward the situation in which either the United States or the central banks as a whole will resume purchases of gold on the official basis of \$35 an ounce?

SECRETARY FOWLER: Well, on this question involving South African gold, since you raise it specifically, and in view of Mr. Bratter's question, perhaps I should make some comments about the situation as we see it.

Representatives Reuss and Widnall have urged the continuation of the two-tier gold arrangement. They stated that they would be disturbed by any agreement by the former gold pool member nations aimed at "placing an artificial support" on the free market price of gold. I share the feeling that there should not be an artificial support for the free market price of gold. And the question of the two-tier gold system quite obviously continues to be a matter of discussion by the former gold pool members since the March 17 meeting. It has worked quite well so far, although, as has been well publicized, South Africa has sold no gold into the free market.

Now, all of us are interested in making the two-tier system work for its basic purpose, which was the stabilization of the price of gold in dealings between the central banks and the monetary authorities at the established \$35 price. In Stockholm some ten or twelve days after the meeting on March 17, the Ministers of the Group of Ten, as well as the Governors of the central banks, in their communique "reaffirmed their determination to cooperate in the maintenance of exchange stability and orderly exchange arrangements in the world based on the present official price of gold."

None of our Gold Pool partners to my knowledge wish to depart from the two-tier system. It is in the interest of the entire monetary system that it work and work well.

The United States has had no discussions whatsoever with South Africa on this question. The Governor of the South African Reserve Bank attended as usual the annual meeting of the Bank for International Settlements in Switzerland in June. Undoubtedly, as the press has indicated, the question of South African sales in the market must have come up in his conversations with some of those in attendance. Whether there have been any subsequent conversations, I can't say.

Now, what is our primary interest? Our primary interest is that of all the other Gold Pool countries and all of the other members of the International Monetary Fund, to bring and maintain stability to the international monetary system. Heaven knows, we have been engaged for the last ten months in a monumental effort in terms of United States fiscal policy, which had as one of its objectives the further strengthening of the system by strengthening confidence in the U. S. dollar. The arrangements initiated last week to aid

the United Kingdom, which were announced by the head of the Bank of England, and the swap arrangements by the Bank of France, will also strengthen the system. And I would hope that it would be possible to deal with the question of the gold producing countries, such as South Africa, in such a manner that the entire monetary system, its stability, could be well served. There is no enmity toward South Africa held by the U. S. Treasury or Government or any of the other gold pool countries. And none of us wish to hurt her in marketing her principal export product, which is gold. But I would hope that she could see to it that it is within her interests as well as those of the entire monetary system to resume the sale of gold in the free market. And I wouldn't think it would be necessary to provide artificial support in the free market to achieve that end. The big countries of the free world took action on March 17, and reaffirmed their belief on March 30, that the monetary price of gold should remain at \$35 an ounce. They continue to be pledged to that objective. It is in all of our interests to see that the free market price remains within a reasonable measure of the monetary price. The arrangements in the two-tier gold system are directed solely to that end.

QUESTION: Forgive me, Mr. Secretary, but the question was whether or not the United States was likely to buy any gold from South Africa on the official basis at \$35 an ounce in the near future, and I wonder whether we could have any indication of whether this is likely to happen by the United States, or one of the central banks.

SECRETARY FOWLER: I have no further comment to make, except to say that whatever the United States does in dealing with this problem, or related to this problem, will be solely and primarily concerned with taking steps or taking actions or not taking steps and not taking actions that are designed to support the maintenance of the stability of the international monetary system.

Now, this is a matter which takes thoughtful and careful consideration in dealing with this particular problem. And it has been our position, and will continue to be our position, that all of our -- that we shouldn't take precipitate action, and yet whatever action we take should follow the general guideline, which is one of the stated objectives of the Articles of Agreement, the purpose clause of the original Bretton Woods Agreement. The purposes of the Fund and those associated with it are to promote exchange stability, to maintain an orderly exchange arrangement among members, and to avoid competitive exchange depreciation.

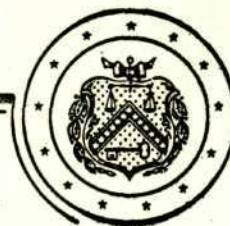
QUESTION: Mr. Secretary, in that connection, do you think that, under Article VI, a country is entitled to sell gold to the Fund?

SECRETARY FOWLER: No. I don't think there is any legal obligation on the part of the International Monetary Fund to buy gold, particularly from a gold producing country. I think that the question of the purchase by the Fund

of gold from a gold-producing country is a policy question. It ought to be determined, as are all such policy questions at the Fund, with a view to the over-all function and purpose of the International Monetary Fund, which includes the stated purpose that I have just outlined. And, therefore, I see no legal obligation on the part of the Fund to engage in that particular transaction, or any particular transaction. I think it should measure its decisions, as it always has, in the light of how they best serve the over-all purposes of the Fund.

Now, as far as Article V, Section 6, the plain meaning of it is not to make the purchase of gold by the Fund obligatory. It applies to the obligation of a member desiring to obtain, directly or indirectly, the currency of another member for gold, provided it can do so with equal advantage, acquired by the sale of gold to the Fund. The obligation is on the member. There was -- there is no obligation on the part of the Fund, we think. In the legislative history, the intention of the drafters -- a specific plan involving obligatory Fund gold purchases was rejected at Bretton Woods. Where an obligation is intended for the Fund to assume, it is precisely stated in connection with other obligations of the Fund to the members, such as on the repurchase; Section 7(a), Article V, says: "A member may repurchase from the Fund and the Fund shall sell for gold any part of the Fund's holdings of its currency in excess of its quota." And, most fundamental of all, I think we must interpret and apply these various functions of the Fund in the light of the over-all objective of promoting exchange stability.

TREASURY DEPARTMENT



Information Service

WASHINGTON, D.C.

S-2613

RELEASE MORNING NEWSPAPERS,
SUNDAY, March 4, 1951.

The Secretary of the Treasury announced today that there will be offered for a limited period a new investment series of long-term non-marketable Treasury bonds in exchange for outstanding 2-1/2% Treasury bonds of June 15 and December 15, 1967-72, the details of which will be announced on March 19,

The new bonds will be issued in registered form only, with appropriate maturity, and will bear interest at the rate of 2-3/4% per annum payable semi-annually. They will not be transferable or redeemable prior to maturity; however, owners of such non-marketable bonds will be given an option of exchanging them prior to maturity for marketable Treasury notes bearing terms to be announced in the official offering.

The new non-marketable 2-3/4% Treasury bonds will be acceptable at par and accrued interest in payment of Federal estate and inheritance taxes due following the death of the owner. They will not be acceptable in payment of Federal income taxes.

The offering of this new security is for the purpose of encouraging long-term investors to retain their holdings of Government securities, in order to minimize the monetization of the public debt through liquidation of present holdings of the Treasury bonds of 1967-72.

The Secretary stated that he planned to open the subscription books on Monday, March 26, and that the full terms of the offering and the official circular would be made available on March 19. The subscription books will remain open for a period of about two weeks, although the Secretary will reserve the right to close the books at any time without notice.

The Secretary indicated that a special offering of Series F and G bonds, or an offering similar to the 2-1/2% Treasury bonds, Investment Series A-1965, will probably be made available for cash subscription at a later date when it appears that a need therefor may exist.

RELEASE SUNDAY MORNING NEWSPAPERS
MARCH 4, 1951

Statement by Senator A. Willis Robertson (D. Va.):

"A French proverb says patience is bitter but its fruits are sweet.

"Some two weeks ago I asked extreme partisans of the Treasury position and of the Federal Reserve Board position with respect to the management of the national debt to be patient while representatives of the two agencies were attempting to reconcile their differences. At that time I predicted that an area of agreement could be reached that would be geared to the general welfare.

"Naturally, I am very happy that such an agreement has been reached, under which we may reasonably expect a refinancing of a portion of the outstanding long term marketable bonds without an undue inflationary effect, and under which the type of independence which the Congress intended the Federal Reserve Board to enjoy will not be destroyed."

RELEASE SUNDAY MORNING NEWSPAPERS
MARCH 4, 1951

Statement by Senator Burnet R. Maybank (D. S.C.):

"I am deeply gratified to learn that the Secretary of the Treasury and the Federal Reserve Board are now in full harmony as to methods of Government financing and monetary management. The importance of this agreement cannot be over-emphasized both as a guide to Federal financial operations, and as a stimulus to our entire defense mobilization effort. It should be productive of confidence in the safety of our economy."

RELEASE SUNDAY MORNING NEWSPAPERS
MARCH 4, 1951

Senator Joseph C. O'Mahoney, Chairman of the Joint Committee on the Economic Report, issued the following statement:

"It is good news that the Treasury and the Federal Reserve have reached firm agreement on current questions of Government financing and monetary policy. I have known from my conferences with Secretary Snyder and Chairman McCabe that all along, they have had the same over-all goal of so conducting Federal fiscal affairs as to strengthen the national economy, control inflation and preserve our prosperity. They have differed only as to procedure. The announcement of their accord in a program covering future financial operations of the Government will solidify public confidence in our ability to deal successfully with all problems of the defense emergency."

oOo

RELEASE SUNDAY MORNING NEWSPAPERS
MARCH 4, 1951

Representative Brent Spence, Chairman of the House Banking and Currency Committee, issued the following statement:

"The concurrence of the Treasury and the Federal Reserve Board in a financing and monetary program is most satisfying. The recent widespread discussion of their 'differences' -- much of it exaggerated -- constituted a minor diversion from pressing defense tasks. Now all concerned can go ahead. The way is cleared for the soundest possible debt management operations. I congratulate the Treasury and Federal Reserve officials who brought the agreement about."

JOINT ANNOUNCEMENT BY THE SECRETARY OF THE TREASURY
AND THE CHAIRMAN OF THE BOARD OF GOVERNORS, AND OF THE
FEDERAL OPEN MARKET COMMITTEE, OF THE FEDERAL RESERVE SYSTEM

RELEASE MORNING NEWSPAPERS
SUNDAY, MARCH 4, 1951

The Treasury and the Federal Reserve System have reached full accord with respect to debt-management and monetary policies to be pursued in furthering their common purpose to assure the successful financing of the Government's requirements and, at the same time, to minimize monetization of the public debt.

S-2612

~~John R. Anderson~~

The following dispatch was transmitted over the wires of United Press-International for use in Sunday morning newspapers of August 2, 1959:

"ECCLES"

(Editor's Note: Marriner S. Eccles was a member of the Federal Reserve Board in 1951 when the Board rejected Treasury Department and White House pressure to buy Government bonds which the public was refusing to buy. The public again is refusing to buy Government bonds. President Eisenhower has asked Congress for authority to increase interest rates to make the bonds more attractive as investments. Congressional Democrats are balking at that. They want the Federal Reserve Board to buy the bonds the public rejects. In this dispatch Eccles explains the situation as he sees it.)

By Marriner S. Eccles
Former Chairman of the Federal Reserve Board
(Written for United Press International)

There seems to be a general lack of understanding of the economic factors which determine the interest rate. It is thought by many, including some influential Congressional leaders, that the Federal Reserve can control interest rates while at the same time maintaining stable money, which is its primary objective.

The Federal Reserve can influence the growth in the supply of money as well as restrict it. To permit an expansion greater than the growth in the national product, under present conditions, would have the effect of diminishing the purchasing power of the dollar. This is inflation and if allowed to continue will lead to ever-increasing interest rates.

Under boom conditions--when the supply of money is held in check to prevent inflation--the demand for credit exceeds the supply, and interest rates are bid up. Such is the present situation. You cannot have low interest rates in a booming economy without bringing about a dangerous inflationary situation. Only an economy in a state of declining activity produces an excess in the supply of money and credit and hence lower interest rates.

Of course, the Government can control interest rates temporarily, as during the war when it controlled everything else--wages, prices, etc.,--but when such controls are taken off, and the excess supply of money released, inflation is inevitable.

A large part of the postwar price inflation was a result of the Federal Reserve purchasing billions of dollars of Government securities at fixed prices in order to prevent an increase in interest rates. This was during the period when the Government had a balanced cash budget.

The Treasury and White House, over the strong protest of the Federal Reserve, required this action be taken. In doing this, an excess amount of bank reserves was created which brought about an inflationary expansion of commercial bank credit and of the money supply.

The present Administration and the Federal Reserve are trying to avoid making this mistake by curbing the growth of bank credit and allowing the interest rate to rise.

Under present conditions the aggregate savings by individuals and business are inadequate to meet private investment demands and at the same time finance the large public deficit of the States and Federal Government. Hence we find interest rates going up--even though there is a growth in the money supply equal to the growth in the national product, at stable prices.

Chm Martin
C.R.S.

There is no effective substitute for larger savings combined with curbs in public spending as a means of preventing inflation and increasing interest rates.

It is a fallacious idea to think that the bankers control this situation and are greatly benefited by high interest rates. On the contrary, this condition causes the banks to pay increasing interest rates for savings deposits and time funds--and depreciates the value of mortgages and bonds held in large amounts by the banking system. At present, this offsets any benefits arising from increased interest rates.

The real beneficiaries of the higher interest rates will be the millions of people who put their money in savings account in banks and building and loan companies, or those who purchase bonds and mortgages at the present high interest rates. In short--the savers.

The need is for the Congress to deal with the causes of the higher interest rate, rather than to oppose an increase. The Government cannot expect to keep interest rates from rising as long as it has to finance a large budgetary deficit in times of prosperity. The effect of this deficit under present conditions is inflationary and tends to discourage savings on the part of the public and to increase the need for credit.

A statement I made last March before the Joint Congressional Committee on the Economic Report bears repeating. It is this:

"I want to say again, that to achieve our objectives will always be a source of great political and economical controversy because everyone wants a greater share of the economic pie than it contains. Government and other public bodies want more money to spend--the leaders of organized labor want more pay and fringe benefits for less hours of work--business presses for further profits--and increasing ranks of oldsters call for higher pensions. However, everyone expects these benefits in dollars of stable purchasing power. Unfortunately, all the economy has to divide are the goods and services it is able to produce--and not the amount of money it could create, which is, of course, limitless.

"In our society, this situation is creating a dilemma for the members of Congress whose constituents want easy money, lower prices, higher wages, greater profits and fewer taxes. Only a combination of the Government, Congress and the Federal Reserve can successfully deal with these diverse forces. To do this adequately it would be necessary for them to agree on the problems and have the courage to act, regardless of political conditions."

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

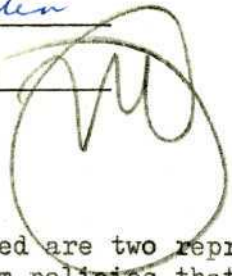
Office Correspondence

Date February 8, 1961

To Chairman Martin

Subject: _____

From Clarke L. Fauver



Attached are two reprints of recent editorial material concerning System policies that may be of interest.

The Reagan piece from THE NEW REPUBLIC is a reply to the article by Miss Helen Hill Miller which was distributed previously.

Excerpts from the Current Issue (February 13, 1961) of U. S. News & World Report Which Reports Interviews With Leading Experts on--WHAT CAUSED TODAY'S RECESSION?

PAUL W. McCracken, professor of business conditions, University of Michigan and former member Council of Economic Advisers.

Q. To what extent was that tightness in money an influence?

A. I think, in retrospect, it is probably true that money and capital markets got a bit too congested in the latter part of 1959. On the basis of hindsight, it would have been just as well had credit pressure not been quite so tight in the latter half of that year.

Q. Do you mean the Federal Reserve System might have acted a little sooner to ease credit?

A. Well, they did reverse their field a year ago, considerably before the recession was under way. And I would want to emphasize that we are viewing all this with the aid of hindsight. After all, these institutions are populated by human beings, and they're having to feel their way along. The actual turnabout was pretty well timed in 1960. But, looking back now, it's clear to me, at least, that we could have done with a little less pressure on credit in the final part of 1959, but this was only part of the problem.

W. ALLEN WALLIS, dean, graduate school of business, University of Chicago and member Eisenhower Cabinet committee for price stability and economic growth,

Q. What would you say is the real explanation?

A. I feel that the Federal Reserve Board tightened up the money supply too soon after the recession of 1957-58 and stayed tight too long. My guess is that they overcorrected for mistakes they felt they had made after the recession of 1953-54.

Q. What were those mistakes?

A. After the 1954 recovery, the Federal Reserve didn't tighten up soon enough, and there was a period of fairly substantial price rise--about 7-1/2 per cent in two years. So, after the 1958 recovery, they were overcautious not to make the same mistake again.

Besides, they may have been working to stabilize the consumer price index instead of consumer prices, and the index seriously overstates the amount of price rise. Also, they may have felt they had to counteract the biggest peacetime Government deficit in history, which occurred during the fiscal year that did not begin until after the '58 recovery had already been under way for several months.

The gold situation may have been another major constraint that influenced their policies. Whatever the explanation, the Federal Reserve

unintentionally clipped the top off the recovery of '58-60 before it reached full bloom.

Q. Has there been less inflation than the index suggests?

A. I think so. I feel that there's really been very little, if any, net inflation since 1951. The index urgently needs overhaul if it is not to misguide our economic policy in the future, as I think it has in the past.

Q. In your opinion, did the Federal Reserve tighten up too soon after the last recession, or not ease up soon enough when the present one started?

A. Both. What you should watch is not so much free reserves, rediscount rates, margin requirements, and so on, as the supply of money--more specifically, rate of change in the supply of money. By early 1959, the rate of expansion of the money supply had been curtailed sharply, and, after the middle of the year, the money supply actually shrank--something that has happened only a half dozen times in the past century, each time associated with recession. Signs of an impending recession began to appear by the beginning of '60, but the money supply continued to fall until the middle of the year.

Now, there are people who are always attacking the Federal Reserve and claiming we should have easy money all the time, and others claiming we should have "tight" money all the time. I'm absolutely out of tune with both groups. Basically, I am very favorable to the Federal Reserve. What I'm talking about is whether they could have done better.

Q. Has the Federal Reserve eased up enough in recent months, or should they ease up still more?

A. I would like to see the supply of money growing a bit faster.

Q. Is there anything, in your opinion, in addition to the policy of the Federal Reserve, that is basic to this recession?

A. Well, lots of things cause recessions, but this time none of them except the quantity of money could account for cutting down the recovery before it was even full-grown. The Federal Reserve controls the quantity of money. I want to say that it's done a good job of eliminating the large waves in business, although not singlehandedly--the automatic stabilizers in our fiscal policy have been a big help, too. What we're fighting now is ripples, but we do have to fight them. You never know when a ripple is going to become a wave.

Q. What, if anything, did the steel strike have to do with bringing on the recession?

A. I don't think it had much at all to do with it. Maybe it did indirectly, by making it hard to interpret signs of the coming recession, and thus keeping the Federal Reserve from easing up on the money supply sooner. Even before the strike, though, about April, 1959, Prof. Milton Friedman of the University of Chicago and Dr. Beryl Sprinkel of the Harris Bank

both predicted that a recession would begin about a year from then. They both based their predictions on the Federal Reserve's curtailment of the expansion of the money supply.

Q. What is it going to take to provide a return to relatively full employment?

A. The Federal Reserve already took the appropriate action last June. That was to stop the decrease in the quantity of money, and turn it around and get it rising again. It takes about six to 18 months for the economy to respond, and there's every reason to anticipate that the action they've taken will be effective. They should, perhaps, strengthen it a little.

One view, for which there's a lot to be said, is that the Federal Reserve ought to keep the quantity of money growing at a pretty steady rate, because the lag in response is longer than the periods for which economic forecasts have any validity.

ELMER C. BRATT, professor of economics, Lehigh University.

Q. Was tight money also a factor? Was credit tightened up too much in 1959 in anticipation of the inventory boom that was due to follow the strike?

A. It's unfortunate that money got tightened up as much as it did.

Q. Did the Federal Reserve miscalculate?

A. Not particularly. The recovery was very rapid in its early stages. If the Federal Reserve was to counter the business trend precisely, then it was natural for it to tighten up. Perhaps it was trying to counter business-cycle movements too neatly. There were special factors, however, that were causing money to tighten up.

EZRA SOLOMON, professor of finance, graduate school of business, University of Chicago.

Q. Do you think the Government's tight-money policy had anything to do with the slump?

A. I don't think so. It may have prevented the boom from going further, but in itself it did not cause the recession.

MARTIN R. GAINSBROUGH, chief economist, National Industrial Conference Board.

Q. Do you believe tight money had anything to do with causing the slide in business?

A. I'd say that was less important than the contraction in home building. The main reason for the lag in home construction was a catching-up in demand, coupled with the effect of high labor costs and high prices of construction materials. Some people who might have been in the market for new homes couldn't buy them because of the high wage-cost situation in that particular industry.

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Author: Reagan, Michael D.
Article Title: Who Will Make Monetary Policy?
Journal Title: The New Republic
Date: February 6, 1961

This article is protected by copyright and has been removed.

Author: Dreyer, H. Peter

Article Title: Swiss Bankers Upset by Germany's Decision

Journal Title: Journal of Commerce

Date: September 26, 1969

This article is protected by copyright and has been removed.

Author: Morgan, Dan
Article Title: Kiesinger Defied on Bank Call
Journal Title: Washington Post
Date: September 26, 1969

This article is protected by copyright and has been removed.

Author: Whiting, Charles

Article Title: Bank hole creates 'suspense' drama

Journal Title: Minneapolis Star

Date: September 16, 1969

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date

4/4/09

To

Mr Maloney

From

Merritt Sherman

Chamby - You may
be interested in this if
you haven't seen the
series. You are
welcome to it, if
you want for a
clipping file.



This article is protected by copyright and has been removed.

Author: Nichols, Robert E.

Article Title: The Future of Capital Markets: William McChesney Martin: The Broad Sweep

Journal Title: Los Angeles Times

Date: May 21, 1967

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Author: Nichols, Robert E.

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The Proposed New International Reserve Asset

*Extract from remarks of Allan Sproul at a recent meeting
of the Directors and Senior Officers of Wells Fargo Bank*

Recently the finance ministers of the Group of Ten leading financial powers of the world, approved a contingency proposal for the creation, under certain circumstances, of a new type of international reserve asset. It is in the form of a special drawing right in a special drawing account (as distinguished from the existing general drawing accounts) in the International Monetary Fund. This proposal will be presented to the annual meeting of the governors of the Fund at Rio de Janeiro at the end of September, and undoubtedly it will be approved since the Group of Ten has enough votes, under the weighted voting procedures of the Fund, to approve what they have proposed. The proposal will then have to be put in legal form as an amendment to the articles of agreement of the Fund and submitted to the 106 member countries for ratification. It is expected that, since everybody will be getting what looks like something for nothing, as well as because of its sponsorship and its objective, that the necessary ratifications will be in hand sometime in 1969.

Once the creation of the new special drawing right—it is to be known as an SDR—has been ratified by the governments concerned, the new reserve asset will be contingently ready for use. The important decisions which will then have to be made are the timing of the first issuance of the SDR's and the amount. Proposals for actual issuance will originate, at least formally, in the IMF and on the initiative of the Managing Director, after it has been ascertained that there is broad support (for which Group of Ten support could

be read) for such an addition to total international monetary reserves. The governors of the Fund will have to approve the issuance of SDR's, and fix the amount to be issued during a beginning period. These actions will require the affirmative vote of countries having 85% of the voting rights in the Fund, which means that there will have to be agreement by the United States, the United Kingdom and the countries of western Europe. This is not just a matter of veto power, however, the new reserve scheme can only work properly if its requirements are accepted and its procedures are adopted by these countries whose national currencies are those most used in international trade and finance.

The present assumption is that the base trial period for the issuance of SDR's will be for five years beginning in 1969 or 1970, and that the initial amounts to be issued will be relatively small; perhaps the equivalent of \$1 to \$2 billion a year or a total of \$5 to \$10 billion.

The SDR's will not be money in the ordinary sense, and will not be quite "as good as gold," although the unit value for expressing SDR's will be a weight of fine gold and maintenance of this gold value is provided for. The SDR's will "circulate" only among national monetary authorities; they will become a part of each country's monetary reserve, and each participant will be entitled to use its SDR's to acquire an equivalent amount of a convertible national currency or currencies, either directly from other participants or through the special drawing account of the IMF. Participating countries will be expected to use

their SDR's only for balance of payments reasons or in the light of developments in their total reserve positions, and not for the sole purpose of changing the composition of their reserves—for example trying to use SDR's solely to accumulate gold.

It may be said, according to the proposal, that as to 70% of their allotted SDR's during the first base period of their use, each participating country will be given special drawing rights which will not have to be repaid and which will, therefore remain in existence indefinitely as an addition to the world's international monetary reserves. Use by participants of the remaining 30% of their allotments, averaged over the five-year base period, will incur an obligation to "reconstitute their position"—that is to repay their drawings.

The further details of the proposal are for the experts and the future. What does it boil down to? Four years or more of study and two years of negotiation have brought forth more than a mouse, if less than a mountain. For some years, now, an ample degree of liquidity has been maintained in the international monetary system by small accretions to the monetary gold stock, by the use of existing drawing rights in the IMF which must be repaid over time, by various bilateral short term swap arrangements between central banks, and by the persistent and substantial deficits in the balance of payments of the United States, since these dollar deficits become part of the world's monetary reserves as dollars held by foreigners in excess of private trading and financing needs flow into foreign central bank holdings.

But we are not happy with our continuing deficits and the shadows they cast on the dollar. And foreign official holders of dollars have become restive concerning their accumulative holdings, in part because these holdings at about \$14.5 billion are now as large as our total gold stock, and both foreign official and private holdings of dollars are about double our total gold stock.

If so much of the load of the world's international monetary system continues to rest on the dollar, and if our ability to support the system on some sort of gold basis continues to decline, we might someday reach the point where we would have to say, "sorry boys, you have had it." Nobody would want this to happen. It would wreck the network of stable, convertible currencies which has been built up since World War II, and would probably cause a world lapse into protectionism, restrictionism and ultra-nationalism in international trade and finance. It has seemed the part of prudence to begin to develop a means of spreading the load on the dollar as the world's principal reserve currency, as well as the principal currency used in carrying out the world's private commerce and finance.

That is where the SDR or special drawing right on the IMF comes in. Its creation will be an important step in putting all of the other principal currencies in the world alongside the dollar in bearing a part of the reserve currency burden, and in underwriting increases in the world's international monetary reserves as they become needed at some future time. It is a significant expansion of the use of credit in international monetary arrangements.

In fact the proposed SDR will be another step on the long, long trail which is leading to the eventual elimination of gold from the international monetary system, except as it may persist as a sort of constitutional monarch with ceremonial functions. And, right now, the proposal made by the finance ministers of the Group of Ten puts the world, and the currency speculators and the gold hoarders for profit, on notice that the leading financial countries of the world have compromised some of their differences, and are going to go along with the existing international monetary system linked to gold at \$35 a fine ounce. This is worth a resounding cheer, if not the twenty-one gun salute which has been given it by the Administration.

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