

now, the situation may be even worse before the end of the year. Borrowers, investors, and market professionals all are expecting a large Federal deficit in the fiscal year ahead. They fear that financing such a deficit will put additional heavy pressures on the market and that a deficit of this size, along with resurgence in private demands, harbors the potential of reviving inflationary pressures by the boost it will give to spending and to private incomes, in turn stimulating additional credit demands.

The problem of trying to change market expectations as deeply ingrained as these appear to be is difficult indeed, but change them we must if bond markets are to become less susceptible to upward rate pressures and if we are to avoid the possibility of renewed diversion of funds from mortgage markets that would seriously hamper the recovery of housing.

It is for these reasons that I am firmly convinced that we must have adequate, effective—and above all—prompt tax action that would whittle down the prospective deficit for the coming fiscal year to one of manageable proportions.

From the beginning, I have favored the President's proposal for a 6 per cent surtax. In light of the recovery under way in the economy and the current rate of Government spending, I would be prepared now to support an even higher amount, if it is warranted when appropriations by Congress for Government spending during the coming year have been completed. But we should not delay in coming to grips with the problem, for delay would permit inflationary forces to gain momentum as well as permit market expectations to become even more deeply embedded.

It goes almost without saying that I am equally in favor of holding down or cutting back Government spending wherever that is possible without impairing the efficient provision of public services the country has determined it wants to have. Ours is a great and a prosperous nation and we can undertake whatever programs we feel we need, so long as we are willing to assume the financial obligations involved. When we fall into the habit of perpetual deficit financing the soundness of our currency and the strength of our economy will eventually be undermined.

From my experience, the American public will support any policy which they are convinced is essential in the national interest. The public recognizes that the war in Vietnam—which after all accounts for the major share of added Government expenditures—must be paid for. I believe that a tax increase now deserves, and will receive, broad public support. I'm confident, too, that Congress will reflect this support and take the actions to provide, in appropriate measure and timing, the fiscal discipline we need to ensure sustained economic progress.

There is another proposal I should like to put before you that in my view is equally deserving of public support and adoption by the Congress. I have come to the conclusion that we should also act now to eliminate the 25 per cent gold cover requirement against Federal Reserve notes, and thus remove any uncertainty concerning the availability of our gold for official settlements with other governments.

The readiness of the U.S. Treasury to buy and sell gold at the fixed price of \$35 an ounce in transactions with foreign monetary authorities has greatly contributed to the willingness of foreign monetary authorities and private foreign residents to hold dollar reserves and working balances. As a result, the dollar has attained a unique position in international commerce and finance, and the universal acceptability of dollars has greatly facilitated the record expansion of international trade. Since 1950 world trade has tripled, rising from less than \$60 billion to \$180 billion last year. Thus, the availability of U.S. monetary gold holdings to meet international convertibility needs is a matter of vital importance not only to the United States but to the entire present system of international payments on which the free world relies.

Over the years ahead, the continued growth of U.S. economic activity will require continuing monetary expansion consistent with a stable dollar. Under prospective conditions, it appears all but certain that the gold certificate reserve ratio of Federal Reserve Banks, for domestic monetary purposes alone, will steadily decline, even if gold sales to foreign monetary authorities are small. Of course, any substantial further outflow of gold would accentuate the decline.

At the end of May our total gold stock amounted to \$13.2 billion, of which almost \$10.0 billion was earmarked as the 25 percent reserve required against Federal Reserve notes outstanding. This left "free gold" totaling \$3.2 billion. The steady increase in Federal Reserve notes in circulation each year to meet the needs of a growing economy amounts to about \$2 billion, thus reducing the "free gold" by about \$500 million per year. Net sales of monetary gold for domestic