Remarks by

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The Cosmos Club is a venerable institution, known in your own literature, as "a meeting place for men distinguished in the fields of science, literature, and the fine arts." For an itinerant civil servant, in and out of Washington for more than 30 years, to be chosen for your annual award will, to me, always remain something of a mystery. That is especially true when I realize the award, for the first time, has been given to one actively in government, in full knowledge that the motto of this town might well be -- indeed should be -- "sic transit gloria mundi."

I realize an occasion of this kind, with its ready-made platform, is designed to provoke from the honoree some pithy remarks about the state of the world, or at least his profession. In approaching that task, I was reminded of that old Abe Lincoln story of the response of a man about to be ridden out of town on a rail: "If it wasn't for the honor of the thing, I'd just as soon decline." Even my best friends have begun to tell me they would rather not hear me talk about the economy again -- it's not, they say, that they value our friendship less but that they value their stock portfolios more.

But I suppose it is fair to say that, apart from the world of economic policy, I, like you, am now part of the world of Washington. And I have been struck, on

each of my returns, by how much the city has changed, and how that reflects, and affects, the processes of government about which we all have to be concerned.

I am not thinking primarily of the physical appearance or size of the place -- even though, at this time of year, we are all reminded of Lady Bird Johnson's beneficient influence on the landscaping. Those multiplying new buildings downtown, and the fact that the outer suburbs stretch out to practically touch those of Baltimore, could be characteristic of the growth of many American cities over the past 35 years.

But I can't neglect one material change that always strikes me as relevant. When I was here as a summer intern in 1950, and at the end of the summer had saved up enough for one celebratory dinner with my colleagues, one had, to the best of my memory, three first-class restaurants from which to choose; in any one of them you could expect to spend about half of New York prices. Well, my friends and I ended up at Harvey's, which then as now styles itself as the Restaurant of Presidents. It is still here -- even though, I hope not symbolically, it has descended into a basement. But it has now been joined by dozens of others, with cuisine and prices well up to world standards.

I don't mention that because I have any special competence as a gourmet, but to make the obvious point that the industry is not being supported by either a proportionate increase in the size of the Washington bureaucracy or in their salaries -- the latter, as you know, have often lagged well below increases in the cost of living, even at home. Rather, I suspect it is supported by geometric growth in the number and size of Washington-based trade associations and legal firms. To take only one example, in 1950, the American Bankers Association, the Independent Bankers Association, and the Reserve City Bankers Association all somehow existed without a Washington base. Now they are all here, and joined by numerous other major banking trade associations. Another reflection is that leading law firms in New York and in every major city now seem to find a Washington branch necessary, a circumstance practically unknown even 20 years ago. And I think that does tell us something of the nature of the change in American society and the processes of government.

Every particular economic and social interest seems to be better organized, more vocal, and highly litigious; this is the place to be all three. And all those added and expensive dining tables help provide a

pleasant ambiance for going about the business of influencing the processes of government. It is, I suppose, a natural response both to the complexity of today's world and to the fact that the reach of the Federal Government, at least until recently, has expanded steadily into more aspects of our national life. But I would also suggest it has a dynamic of its own.

One articulate and well-financed interest group encourages a kind of Hegelian antithesis as others feel compelled to protect their interests from the fellow first on the scene. The question is whether, in the end, a more coherent and rational synthesis of the national interest emerges, or is likely to emerge. Indeed, I sometimes suspect an insidious temptation for trade associations and lawyers to develop a kind of professional self-interest of their own, hardening positions beyond their typical constituents' or clients' needs and inclinations.

There is another phenomena <u>within</u> government that I suspect is related. As I indicated a moment ago, the total size of the Washington bureaucracy has grown but relatively slowly -- about in line with national population. The number of Congressmen and Senators has not changed at all, except to accommodate the admissions of Alaska and Hawaii to Statehood and the delegate from the District of Columbia. But within each of those great

institutions -- the Executive and the Congress -- there have been enormous changes in the way they are manned just below the top.

When one of my predecessors as Federal Reserve Chairman, Bill Martin, left the Treasury to take the job, he was one of only two politically appointed Assistant Secretaries in that Department; the Treasury in total only had five politically appointed "policy" officials. By the time I was Under Secretary in the early 1970's, the distinction between politically appointed and career officials had become blurred, but we still had three career Assistant Secretaries and a non-political Deputy Under Secretary among what had become a total of 11 at that level or higher. Today, to the best of my knowledge, there is no careerist among the 15 "policy" officials at the Assistant Secretary level or higher. And unlike the situation years ago, there are a dozen or two non-career people at the next lower level.

I do not, of course, recite that evolution to make a special point about the Treasury, with which I happen to be most familiar. I am certain that the same general trends have been evident in the other great departments of government, probably more so.

Paralleling these developments in the Executive, there has been until recently a virtual explosion in

staff on the Hill. Much of that, of course, reflects the efforts of Congress to keep up with the sheer volume of constituency-related work as the country grows and communication becomes easier. I don't know of any way to measure accurately "policy oriented" staff of either individual members of Congress or of Congressional committees, but I am told that House and Senate committees now have a total staff of more than 3,600, in contrast to only 540 in 1950. The total size of Congressional staffs is roughly 13,000.

I should emphasize that I can't imagine the Congress acting effectively -- or at all -- today without a sizable and knowledgeable staff well equipped both to participate in the legislative process and to keep an informed eye on the Executive. But what interests me is how all this concentration of politically oriented talent interacts.

It's not that "politics" and "lobbying" ever could or should be absent in Washington; that's a basic element in government. But it's certainly become more specialized and complex. And I am left with the nagging question of whether the heavier layers of shorter-term and politically oriented officials, interacting with ever more highly organized and fragmented constituent groups, do not figuratively, as well as literally, feed

upon each other. Does it in the end produce more and better results, or the reverse?

One certain effect has been to diminish the role of, and I suspect over time the average quality of, the professional long-term civil servant -- those in the Executive Departments and with Congressional committees who look upon government service as a career in itself, regardless of the changing political scene. I know when I was in college and graduate school, at institutions thought to be among the elite, a career in the foreign service or in some of the great domestic departments and agencies was considered by many a natural professional objective, a means by which those able and interested in government could expect over time to gain satisfaction and ultimately a reasonable measure of prestige from constructive public service. Such still exist, and no doubt young careerists today tend to be drawn from a wider spectrum of personal and educational backgrounds, which in itself can be good. But I also sense there is less enthusiasm among the best in college and graduate schools, whatever their particular backgrounds, for a career in the civil service, or in government generally.

We don't necessarily have to have a lot of sympathy about the particular perspective from which

John Ehrlichman, in the midst of the Watergate hearings, said that he could not in good conscience any longer recommend to the young a career in government. But there is room for concern when, for different reasons, our best among the young arrive at the same conclusion.

I know that many remain strongly attracted by public policy issues, and they want to deal with them. But I am also struck by how often talented young people interested in government tell me they think the best thing for them to do is go to Wall Street, or to a law firm, or to a bank, make some money, and then think later about how they might enter government at a "policy level" position when they have both financial security and a real possibility of influencing policy. That's fine as far as it goes. But I wonder how many will really do it, and whether they will be familiar enough with the processes of government to be fully effective when they do enter.

When the young do want to enter government directly, they seem much more likely than before to seek a Congressional staff position where they think they will be -- and in fact are likely to be -- more immediately exposed to, and can more likely affect, the important policy debates. However, those positions often do not imply the same career commitment.

Some of the most politically active will, of course, set their sights on becoming a member of Congress

itself. I share the often expressed feeling that the individual Congressman or Senator today is probably better prepared, better educated, more articulate, and more strongly motivated to "make a difference" than his typical counterpart of 30 years ago. They are certainly busier. There are larger committees, more testimony, and much longer and more numerous laws. Whether those committee hearings are as well attended, the testimony as well absorbed, and the laws as well understood among all the competing claims on time is another matter. I wonder if there is not a fallacy of composition -- whether more individually energetic and able members of Congress, accompanied by more numerous and more expert staff often eager and able to make their own imprint on the policy process, will, beyond a certain point, necessarily produce a more coherent and effective result, or whether they do not, in effect, tend to cancel each other out. One possible result, it seems to me, is to dilute the ability of any Administration -- to which we have for many years looked to set the national and legislative agenda -- to develop and carry through a consistent and coherent program of its own.

I know, in working with the Congress, that many of the best feel a sense of frustration, and those frustrations may even grow as they, as a result of experience, intelligence, and sheer legislative

competence, reach natural leadership positions. That leadership is hard to express where there are so many centrifugal forces at work; the arts of constructive compromise, of bringing relevant experience to bear, of marshalling consensus -- the essential job of a Congressional leader -- are not made easier when so many are in a position to urge so many competing concepts of the public good, supported so aggresively by well organized specific interest groups.

And, of course these days, it must all be done in the Sunshine. Sunshine may at times be a healthy and essential antidote to festering sores. But, carried to excess, I have seen it wilt some tender plants that need quiet cultivation. Sometimes, when legitimate efforts to reach reconciliation will be interpreted as public defeat or "selling out," it seems to have the practical effect of simply hardening antagonistic positions.

We are not going to return to a simpler time.

The public is going to demand -- and deserve -- full information.

We have a more diverse, better educated society, and complications rise geometrically.

As the government does more, and limits on its range of activity once philosophically taken for granted are exceeded, the insidious tendency is to assume that every new initiative is precedent for doing still more.

Any President is going to demand that the bureaucracy respond to his priorities.

The Congress needs to be equipped to do its job of oversight and to make its imprint on legislation wherever initiated.

I yield to no one the right to rail about the "bureaucracy," with its tendency to repel different ideas and new initiatives. I respect and value the work done on the Hill to raise important questions, to facilitate legislation, and to air problems. And there is no doubt that groups in the society affected by government need to have ways to articulate these concerns, and indeed to bring their expertise and experience to bear.

But,I also believe we could help the cause of effective government, rather than harming it, if we more consciously took into account the need for achieving consensus and efficiency when debating aspects of the process of government. The aim would be simple enough -- to restore a better balance among responsiveness, professionalism, and continuity. Nor do I think those characteristics need be competitive; they can be mutually reinforcing. Change isn't an end in itself, and it needs to be tested against experience.

I am thinking in part of matters upon which I have no special competence or specific proposals. Would government operate more effectively and coherently if we collectively developed greater restraint on federal initiatives when states and cities might reasonably be called upon to respond (or not to respond) depending upon their political judgment and their own analysis of whether the matter at hand justifies the money spent, the regulations imposed, or the laws written? Do the campaign financing laws and the PAC's phenomena exaggerate the influence of particular interests unduly; and, would we be better off exerting more discipline on the growth of Congressional and Executive "policy" staffs? Have we paid enough attention to developing and maintaining a core of expertise and a high level of professionalism in the Executive, responsive to the needs of any President? Do we need a better way to limit what we are willing to spend to what we are willing to pay for? Even more fundamentally, the occasional debate about Consitutional issues, such as the term of Congressmen or the President, has implications for many of my more mundane concerns. I have no formula for any of this -- my point is that all of them bear on questions of the effectiveness of the government machine.

I would comment upon the one area where I have had direct experience. As I implied earlier, my observation suggests that the well of talent and effectiveness in the civil service has not been fully replenished over the years. Too many of the best leave prematurely, and too few of the best are entering at the bottom. More political appointees are a perceived substitute, but that practice, in a structural sense, can be part of the problem.

More talent would be encouraged to come and to stay at the junior or mid-levels if the best of them could look forward to culminating their careers at higher levels of responsibility and salary -- and the former seems to me as important as the latter. That will require, among other things, stricter justification of political appointments, certainly at sub-Cabinet levels and the number of Under and Assistant Secretaries -- reversing to some degree the postwar trend.

If that's to have a ghost of a chance, any Administration will need to have confidence that the civil service is in fact both capable and responsive to their direction and needs. I've been around long enough to recognize that a new Administration is often deeply skeptical on that score -- but also long enough to see Cabinet Members come to respect and rely upon the best

of their inherited staff, often at the expense of the less experienced "inner and outer." And it won't work unless the civil service, and those in it, have a strong ethic of responsiveness to their political masters, while retaining the strong sense of institutional memory, continuity, and expertise that is its strength. The best have it now. I have seen it work in key departments with strong morale and sense of purpose. But I also know it hasn't been uniformly true.

The best are getting too few, and we need to find more imaginative ways of motivating and training them. Some of the responsibility must lie with the professional schools of government at leading universities, some of which seem to be groping for their mission. Within government, I question whether a natural departmental parochialism and fear of elitism has not discouraged programs to promote tranfers among kindred departments, more emphasis on a variety of training assignments and experience -- perhaps including long sabbaticals outside government. Alongside that goes the right of retirement at reasonable pensions when a "fast track" doesn't work out, and the right to fire. None of that is new, but somehow we don't seem to implement it well.

Maybe I'm biased. I represent an institution that, in its basic framework, is encouraged to maintain professionalism and continuity. Of course, the Federal

Reserve Act was more fundamentally designed to maintain a certain insulation from partisan or passing political pressures, while maintaining a sensitive awareness of what is going on beyond our marble walls.

In those respects, while quite unlike the typical department or agency, we share some of the characteristics of other independent regulatory bodies -- only more so. I suppose the Federal Reserve must, in its organizational essentials, be among the least changed of all governmental instrumentalities during my years in Washington. It certainly has more unique characteristics, with its regional framework and built-in elements of private consultation and participation.

The strong currents affecting all government have had their impact. Staff has grown. The sheer complexity of the economy and our broadened regulatory authority are reflected in 894 pages of regulation today. I am glad to say that is below the peak, but it is still 10 times what it was in 1950. We spew out dozens and dozens of statistical series about as fast as we can produce them -- even if we sometimes doubt the utility of so much volatile information so frequently -- in response to the demand for openness. Sometimes it's alleged we lack accountability, but you will understand that charge carries less bite to members of the Federal Reserve Board who collectively made 143 formal appearances

before the Congress during the past four years; I personally also made 53 less structured visits last year as well. In contrast, during Bill Martin's first four years, Members of the Board testified 28 times.

I don't want to suggest that trend is any different from that of, say, Cabinet officers, some of whom carry a much heavier load of Congressional contacts. Nor do I want to confuse quantity with quality. Indeed, it's hard to believe -- I don't believe it -- that more frequent testimony means more carefully prepared testimony, or that members of Congress will be as well prepared to receive it, amid the enormous numbers of conflicting demands on their time. That's one reason they need the staff.

There has, of course, been a change in another respect. Thirty years ago, I can affirm from experience, that when you asked a Washington taxi driver to take you to the Federal Reserve, you had better be prepared with the address. A few months ago, a visitor reported a response with a qualitative difference. The taxi driver responded to his direction with an exclamation: "Oh, the Federal Reserve, I didn't realize they had a building. I thought they were just on television!"

Well, if we haven't advanced in terms of locational familiarity, we have in terms of public consciousness.

I suppose it is to that change that I can attribute this award today.

But that awareness also naturally raises questions about our unique role within government, how we go about our business, and whether our special structure is still justified in this day of openness and political responsiveness. The questions are hardly new. The issue is whether the answers also stand the test of time.

My point is not to debate the popularity, or even the wisdom, of current monetary policy. That's my stock in trade -- but not tonight. What is relevant is that the fundamental justification for the structure of the Federal Reserve System is to remove that policy to a degree from the passions of passing politics -- politics in the narrow sense -- and from electoral considerations. More positively, the question is whether the structure in fact encourages professionalism and a "long view" in its decision-making, and whether, at the same time, its decisions are adequately informed, in the language of the Federal Reserve Act, by awareness of the needs of "business and commerce."

From one point of view -- that of a standard governmental department -- the structure of the system undoubtedly looks like the proverbial camel, designed by committee. It combines a central supervisory and

coordinating body in Washington -- the Federal Reserve Board -- with twelve regional banks whose Presidents participate directly in decisions on monetary policy. The Banks also have knowledgeable private citizens, drawn from various walks of life, on their boards of directors; they participate in the regional administrative management and provide a flow of information about the economy and policy proposals even if they are shielded from monetary policy responsibility (and even advance knowledge of key decisions). Obviously, there can be stresses and strains internally -- they are a by-product of the effort to assure a variety of points of view. But I would also submit that, like a camel, it works, and works effectively against those tests of competence, continuity, and responsiveness.

There exists a definite esprit de corps. We have lost a lot of good people over the years to the private sector -- I am always struck by how many of those commentators and critics of our policies were themselves trained in the Fed; I also think we can fairly say so many leave and assume positions of prominence because so many good young people were attracted to come in the first place. Through the years, the sense of enthusiasm and dedication to a common goal -- among the Board Members themselves, the Reserve Bank Presidents, the talented professional staffs, the boards of directors,

and the supporting staffs -- have remained high, and that isn't a matter of creed or oath.

Beyond our role in monetary policy, narrowly defined, the Federal Reserve also has responsibilities in the area of banking supervision and regulation, the provision of certain key banking services, acting as fiscal agent of the government and in consumer affairs.

Whether or not each and every one of those functions is inherent in central banking, I think we must assume that the Congress itself, in providing us with added responsibilities through the years, has repeatedly recognized that certain functions may be better done by an independent body, free from day-to-day partisan concerns and with continuity of purpose. The challenges have, in the end, come from those dissatisfied with monetary policy at particular times, from those who, for whatever reason -- intellectual, or doctrinal, or political -- want monetary policy to respond to their particular conceptions. That, of course, is the basic reason a high degree of continuity and insulation was provided the Federal Reserve in the first place. The basic concept still seems to me sound.

So in this city that has seen so many changes in my 30-year acquaintance, I am glad to say that some fundamentals have remained. I, and my colleagues, are

constantly aware that we must work hard to justify our special place and trust. A special status implies special responsibilities -- responsibilities to take monetary and other actions that we believe to be appropriate viewed against the continuing long-term public interest in stability and sustained economic growth, and policies we can explain and defend in the public arena.

You can well imagine that, at the risk of driving the selection committee to drink, I'd like to interpret this occasion as a special Cosmos Club blessing on our structure; but I won't. What I do hope you will permit me to say is that the honor you do me can only underscore the need for all of us in the Federal Reserve to conduct ourselves in ways that maintain the confidence we try to earn.

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