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Remarks by

Arthur F. Burns

Chairman, Board of Governors of the Federal Reserve System

at the Commencement Exercises of

Carnegie-Mellon University

Pittsburgh, Pennsylvania

May 16, 1977

It is a great pleasure for me to be here today to join in paying tribute to this graduating class.

In considering what I might say on this occasion, I found my thoughts going back to a series of lectures on the Management of Prosperity that I gave on this campus in 1965. In these lectures I explored the challenge of sustaining the prosperity our economy was then enjoying.

As events unfolded, that year proved to be a critical point of inflection in this Nation's economic history. And I believe it holds a lesson for us that is worthy of close attention.

What happened in 1965 is that, through a series of policy miscalculations, a balanced and healthy prosperity was transformed into a classic situation of excessive monetary demand. Had it not been for the mistakes of 1965, I believe we would have escaped many of the economic troubles that subsequently came to plague us and with which we continue to grapple today.

The Federal government threw caution to the winds in 1965. Having successfully nurtured a phase of economic expansion over a period of four years, our Nation's policy makers -- in their enthusiasm for extending the ongoing improvement -- took the risk of applying one stimulus after another to the economy at a time when full employment was already close at hand.

In that year a sizable reduction of excise taxes was legislated, besides putting into effect additional reductions of personal and corporate income taxes that had been voted a year earlier when the economy was less robust. Those things were done at the very time our military involvement in Vietnam was starting to escalate rapidly and when we were also embarking upon the Great Society programs that became such a heavy drain on the Federal budget.

The pressures on available resources generated by that extraordinary series of expansionist measures were for a time reinforced by a liberal monetary policy. As a result of releasing all these stimuli on an economy that had already developed considerable momentum on its own, we started on a path of inflation from which we have never since been able to disengage ourselves entirely. Events such as major crop failures and the sharp rise in oil prices merely aggravated the underlying inflationary bias that originated in the mid-1960's.

One hard lesson of the past dozen years is that a condition of chronic inflation makes the achievement and maintenance of a low level of unemployment extremely difficult. Today's high unemployment rate is, fundamentally, the legacy of an inflation that surely could have been avoided.

I have chosen to direct your attention to the policy mistakes of the mid-1960's because that episode teaches that prosperity can be as difficult to retain as to achieve. We are again in a phase of economic expansion that could carry us to much fuller utilization of our resources in a year or two. As that condition is approached, the costly consequences of our earlier incaution need to be remembered.

Let me therefore say, in closing, that a durable prosperity in our country must not be taken for granted. Whether or not you graduates can fulfill your personal aspirations will depend heavily on how well you and the entire American people understand the need to prevent new inflationary waves across our land.

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