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Some Parting Thoughts

Address by

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Let me say first of all that I am most appreciative of the invitation to appear before you. In making my final public appearance as Chairman of the Federal Reserve Board here at the National Press Club, I take some pride in thinking that my relations with the press over the years have been forthright and decent. I at least like to think that I have avoided the "us" and "them" mentality that so often afflicts public figures in their dealings with the press. Certainly, the press has generally treated both me and the Federal Reserve System fairly. For my part, I have found the press a vigilant ally in the endless task of contributing to public understanding of the problems before our Nation.

Having spent much of my life wrestling with the subtleties and uncertainties of political economy, I am sensitively aware of the pitfalls that surround coverage of economic and financial news. I say most sincerely that I have great admiration for the professional job that the press corps does, day after day, in reporting and interpreting economic developments. To this assessment I have only one qualification, namely, that broadcast journalism still is not as effective as it might be in dealing with economic news. I recognize, of course, that the constraint of limited time slots presents formidable difficulties. In any event, written journalism, as it applies to economics, has in my judgment attained truly impressive maturity.

This luncheon is not a "good-bye," since I may be doing some things in the future that will interest you professionally. In fact, it's not beyond the realm of possibility that I may even be joining your ranks in one capacity or another. Those in town who think the time for farewell has come are mistaken. Neither a shedding of tears -- nor any special rejoicing -- is yet in order.

There are a few thoughts I would like to share with you on this occasion. The economy is doing very well in some respects and poorly in others. In analyzing trends, I find it helpful to distinguish between the performance of the economy in recovering from the recent recession and its performance in coping with longer-run, deeply imbedded problems.

The economic expansion that began almost three years ago still has vitality in my estimation and I see no serious risk that it will peter out soon. The upsurge in sales with which 1977 ended caused inventories to be drawn down in numerous businesses, thus creating a likelihood that over-all economic activity will receive a special fillip for a while from businessmen's efforts to rebuild stocks. And with consumer activity, housing activity, and governmental activity all still exhibiting expansionary tendencies, I believe that further gains in employment and income lie ahead.

Business investment activity, to be sure, is still not showing decisive robustness. This reflects the uncertainties and unease that continue to haunt our business and financial environment. I expect, nevertheless, that the tax relief which the President has proposed for business will lead to a strengthening of investment commitments as 1978 unfolds. In saying this, I do not mean to embrace each and every aspect of the Administration's tax and budgetary stragegy. Many of you know my views well enough to appreciate that a tax program structured to my liking would be tilted more decisively toward the stimulation of savings and investment. I think you also know that I feel that tax reduction at this stage of economic expansion should be primarily accommodated by limiting expenditures, so that significant shrinkage in the Federal budget deficit might still be achieved. But on the specific issue of tax reduction for business, I do believe that what has been proposed will help to relieve the low level of corporate profitablility that has prevailed in recent times and thus constitutes an important plus for the capital-goods outlook this year and next.

So much for the bright side of the coin. The generally good record of our economy in terms of recovery from recession stands in marked contrast to a virtual absence of progress in coping with the overlay of our longer-term economic problems. I am thinking particularly, of course, of the dispiriting failure we have experienced in making headway against inflation. I am thinking also of our inability to solve the structural unemployment that is causing so many young people and blacks to be left outside the mainstream of national progress. And while most people probably think of our well-publicized balance-of-payments difficulties as being of recent origin, they too in fact are the product to a considerable extent of deep-rooted ailments that we have not dealt with effectively.

Last year witnessed no progress toward a less inflationary environment. Rather, the basic inflation rate settled in the 6 per cent area, reflecting the difference between average annual pay increments of labor that are running above 8 per cent and productivity gains that are averaging little more than 2 per cent.

While the discrepancy between wage and productivity increases is tending at present to perpetuate inflation, it is important to recognize that the inflationary problem with which this Nation is burdened did not originate with an irresponsible wage push on the part of American workers or their unions. Rather, the tragic skein of events in which we are caught is chiefly traceable to fundamental mistakes of governmental policy made in the mid-1960's. Those mistakes involved over-stimulation of the economy at the very time our military involvement in Vietnam was escalating and when we were also embarking upon Great Society programs that were to become an increasingly heavy drain on the Federal budget. The pressures on available resources generated in the mid-1960's started us on a path of enormous budget deficits and rapid inflation from which we have not been able to disengage ourselves. Indeed, we have continued to compound our problem by seeking to fine-tune the economy by governmental fiscal actions that, in my judgment, have weakened the private sector's dynamism and efficiency.

Events of recent years, such as major crop failures and the sharp rise in oil prices, have merely aggravated the underlying inflationary bias that our government, under both Republican and Democratic Administrations, has imparted to the economy. Other developments -- such as the escalator arrangements sought and achieved by various economic groups -- have speeded the transmission of inflationary impulses across the economy. In sum, over an extended span of time, we as a Nation first created enormous upward pressures on the price structure, and we then devised elaborate arrangements that tend to perpetuate those pressures even under conditions of economic slack.

The inflation plaguing our economy may not end quickly. Government has, however, a special leadership role in the pursuit of moderate fiscal and monetary policies, in encouraging wage restraint by way of example, and in many other particulars. But private actions are critical too, ranging from more determined pursuit of productivity gains to the conduct of collective bargaining in ways that are more responsible in a broad social sense. We see nowadays too many excessive wage settlements entered into by managements and trade unions, who then band together in seeking governmental protection from the market consequences of their own actions.

The need to fight inflation is widely recognized in our country, but the will to do so is not yet strong enough. I have no doubt that the will to get on energetically with the job of unwinding the inflation will be forged someday. I only hope this will come through a growth of understanding, not from a demonstration that inflation is the mortal enemy of economic progress and our political freedom.

And just as we need a more determined approach to the challenge of inflation, so too do we need fresh initiatives for dealing with structural rigidities in the job market. The heavy incidence of unemployment among young people and blacks will not be remedied by general monetary and fiscal policies. We need, instead, specialized efforts: first, efforts to overcome serious educational deficiencies so that individual job seekers will possess greater marketable skills; second, efforts to eradicate impediments that stand in the way of job opportunities for young people and minorities even when the potential for effective job performance is present. These impediments include Federal and State minimum-wage laws, restrictive practices of various craft unions in limiting membership, unnecessary licensing and certification requirements for many jobs and business undertakings, and -- I must add to our shame -- continuing racial discrimination. This Nation can have no greater priority than to end the tragic human wastage that we have been allowing to occur.

The disappointing aspects of economic performance are not confined to the domestic sphere. Full prosperity in this country can hardly be achieved in the absence of a healthy world economy and a stable international financial system.

The recent steep decline in the value of the dollar in foreign exchange markets -- precipitated in large part by our enormous trade deficit -- has become a matter of serious concern.

To be sure, there are those who argue that recent exchange market developments are not worrisome. Indeed, much of conventional wisdom holds that a depreciating currency will improve a nation's trade position and, in turn, benefit its economy. Whatever merit may attach to this theory, it would serve our country poorly -- particularly at the present time when such a large part of the world's economy is in a semi-stagnant condition.

The dollar, we must remember, is the currency in which the preponderance of world trade is conducted. It is also a store of value for practically every central bank, for multinational corporations, and for people of wealth and means around the world as well as for the American people. Continued uncertainty about the future value of the dollar could produce a disorderly, unsettling flight from dollar assets. It could lead to hesitation about spending or investing decisions around the world that would be inimical to prosperity -- including the expansion of our exports. If the currencies of some foreign countries, especially those that depend heavily on exports, should experience significant further appreciation, their economies might well suffer. Such a development could reinforce recessionary tendencies and add to the risk of fostering protectionist sentiment around the world.

That the depreciation of the dollar has recently added to economic uncertainties both here and abroad is well understood by the Administration. That is why the President has reassured the world about our country's determination to protect the integrity of the dollar. That is why the Treasury and the Federal Reserve have recently taken steps that have been helpful to the functioning of foreign exchange markets. But the technical measures so far taken cannot of themselves assure a permanently strong dollar.

To protect the integrity of the dollar, we must enact without further delay an energy policy that promises substantial reduction of our dependence on imported oil. Second, we need to institute tax policies that will encourage business capital investment -- including investment in this country by foreigners. Indeed, policies that make the United States a more attractive haven for foreign funds are especially important, since we cannot reasonably expect dramatic improvement over the near-term in the trade portion of our international payments accounts. Finally, our international payments imbalance requires an anti-inflation strategy that promises to enhance the competitiveness of our products in international markets.

These requirements of policy will not only serve to strengthen the foreign-exchange value of the dollar and thus the entire international financial system. They are equally essential from the viewpoint of our domestic economy. An effective energy policy, a tax policy to stimulate capital investment, and a meaningful anti-inflation policy -- all this, as the Administration recognizes, is vital to our domestic prosperity.

Before closing, I want to comment very briefly on a matter that, to my mind, can make an enormous difference to the future of our country. I refer to the special status of the Federal Reserve System within our governmental structure.

Throughout the ages, national governments have had a chronic tendency to engage in activities that outstrip the taxes they are willing or able to collect -- a practice that was facilitated in earlier times by clipping precious coins and in modern times by excessive printing of paper money and coercion of central banks. To afford a measure of protection against such political abuses, the authors of the Federal Reserve Act provided for an independent central bank, and their action -- while at times questioned -- has been confirmed time and again by the Congress. In other words, substantial independence in exercising power over money creation is not something that Federal Reserve officials have arrogated unto themselves, nor is it something that others have conferred because of a belief that central bankers have unique insight that sets them apart from other people. Rather, the ability of the Federal Reserve to act with some independence from the Executive Branch, and also with immunity from transient Congressional pressures, was deliberately established and has been deliberately maintained by the Congress in the interest of protecting the integrity of our money.

In leaving the chairmanship of the Federal Reserve Board, I am especially pleased that President Carter has unequivocally assured the American people of his own conviction that an independent Federal Reserve serves our national interest. On that happy note, ladies and gentlemen, I will now end and turn to your questions.

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