Remarks by

Philip C. Jackson, Jr., Member

Board of Governors of the Federal Reserve System

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For the past several years, our country has remained at peace with the rest of the world. No longer do we have direct involvement in foreign conflict to distract us. It is not surprising under these circumstances that we have focused recently on our own welfare, principally in the economic areas of public policy. While we are enjoying the benefits peace brings, at the same time we have a national frustration that we have been unable to make sufficient strides forward in solving some of our economic problems.

I don't think that this frustration is properly based. If we look realistically at our track record since the recovery began early in 1975, we will find that our economic recovery has been good, particularly in comparison with other periods of economic expansion. There are, however, two areas, unemployment and inflation, where we should have major discontent.

Our unemployment situation is probably better than we realize. Changes in the character of our labor force have made comparable historic levels of tightness or restraint on the labor supply distorted. As larger proportions of women and young people have entered the labor force, they have by their employment patterns produced higher levels of total unemployment. This is not to say in any way that we should be content with the present high levels of unemployment among racial minorities or among teenagers. But we must focus our attention on solving their unique problems rather than trying to stimulate excessive growth throughout the entire economy. Unfortunately, this explosion in the labor force requires that just to maintain our present unemployment rate, we achieve a real growth rate higher than rates we have found sustainable in the past.

This explosion has been produced by massive social changes, principally the increased participation by women in productive employment. Women are joining the labor force sometimes due to a desire to work and other times due to economic necessity. Families now find they need two incomes to maintain their standard of living.

It is no news to any of you that inflation is currently running at an intolerably high level and pointing higher. Let's put the severity of the problem in perspective. Assume you were to become totally and permanently disabled in a car wreck as soon as you graduated from school and before you were able to begin your productive years of employment. The jury awards you $1 million to compensate for your lack of earning ability. Sounds generous doesn't it? But what will you have if inflation at 6% persists for the 36 years of a typical span of active employment? At the end you would only have equivalent purchasing power remaining of only $120,000. One-eighth of that which you originally received.

But what can we do about inflation? What changes in this joint action of us all, that we call "government," can we undertake? Government has many facets. The one which often comes to mind when price levels are concerned is monetary policy. Most of you are familiar with the constitutional provision that gives our Congress the right to coin money and regulate the value thereof. Some of you know that the Congress in turn delegated this privilege of monetary policy to the Federal Reserve System. We have the primary responsibility to make monetary decisions, subject not only to the review of Congress, but also ultimately through the electoral process to our accountability to you for our actions. Today we are facing a dilemma.

Do you really want us to fight inflation by tightening up the money supply? Recognize that if we do, interest rates will likely rise and perhaps the growth in the economy will slow down or stall. This could well reduce the level of business spending. It would reverse the success we have had in reducing unemployment. Tightening severely on money may well slow down the growth in our productive capacity, which down the road would ultimately produce supply shortages, which would in turn produce price pressures from excess demand in proportion to the available supply. Furthermore, if we, by severely tightening monetary policy, slow down U.S. economic growth, it is most likely that we will put off, if not destroy, the present gradual recovery which is taking place in other countries throughout the western world. Such will increase the strains on their social and political systems, perhaps even to the point of producing military actions which we want so anxiously to avoid.

In my opinion, monetary policy must be very delicately and carefully administered today. It must lean against inflationary pressures. But monetary restraint must not brake so severely that it damages the economy and throws it into recession. Monetary policy has an important part to play in our fight against inflation. But it should not be left to do the job alone.

The next aspect of public policy which normally is discussed in inflationary context is our fiscal policy. Here too I believe that the potential for change is currently limited. If you look realistically at our fiscal policy for the last thirty years, you will probably concur with me that our country is rapidly becoming what some call a fiscal junky. It takes more and more stimulus to get the same increases in real economic results. And it produces more and more real letdown in our economy when fiscal stimulus is withdrawn.

I think that maintaining our present level of government deficit will add little in the next few months to the present rate of inflation. On the other hand, I agree with those who believe that we must reduce our deficits in prosperous times. If we do not do so, the deficit would reach intolerable levels when an economic downturn finally arrives. Government deficits are inflationary in the long run. They either transfer part of our money stock from the private sector to the less productive public sector or they encourage the creation of excessive money supplies in the vain attempt to meet both needs.

Unless we restrain the growth of government spending and encourage expansion of our private capacity we cannot win the fight against inflation. But fiscal policy has the same constraints from overkill as monetary policy. It too must avoid going too far even in the right direction.

There is another aspect of public policy with strong economic influences which is often overlooked or down played when it comes to determining actions that could reduce our levels of inflation. I'm speaking of regulatory policy. By regulatory policy I mean the extent to which we give up our individual freedoms to act, surrendering them to the group decision which is called "government." This, in my judgment, is the big end of government action. This is where our lives are ordered, our resources directed and our actions limited.

There are several reasons why I believe our present regulatory policy is inflationary.

The first reason is that too many of our laws are made in and under an events-influenced environment rather than through an objective analysis. Our political process itself deters careful analysis. When we see an evil produced by a notorious event it is seldom that we, the electorate, are willing to face up to the reality that enduring the evil is less costly to the whole society than the cure which is proposed. How long has it been since you have seen a great tragedy or great miscarriage of justice described on the front page of your paper that wasn't accompanied by some proposal to pass a law against it?

The present bills under committee consideration in the House of Representatives which would further restrict bank ownership are a good current example of our problem. The Bert Lance affair will strongly influence any laws which are enacted, far beyond the proportion that Lance's two banks have to the 15,000 others in our country. While some congressmen will work diligently to keep this highly publicized event in perspective, it will inevitably warp and scar the final product. Control of the banking industry, like most other legislative issues, is so complex a subject that it is understandable that many will turn to a specific, real single occurrence to which they can readily relate, as a basis for final judgment. But what is needed is a comparison between the cost of the public injury, if any, and the cost of the remedy. While the cost of the remedy may initially be put upon the banks, ultimately it will be borne by all of us.

Another example of the need for balancing costs versus benefits is the present Truth in Lending Act. The conceptual framework of the Act was sound, and still is. Everyone would be better off if the costs of borrowing were presented to a consumer in such a way as to enable him to comparison shop alternative sources of credit. Unfortunately, this simple concept has been expanded by further legislation, by regulations, and by court decisions to the point that the law is now a veritable encyclopedia of highly technical complicated requirements. Those creditors who are honestly attempting to comply with the law have difficulty in knowing what the law requires. Small creditors have been subjected to a burden beyond their capacity to perform. As a result many of them have withdrawn from the credit granting business. This has cut down the competitive alternatives for consumers. Other creditors have hired lawyers to decipher the regulations and other employees to handle the paperwork, and have passed on to us the expense of their salaries.

Nor does the present amount of disclosure furnished under the law serve the consumer's interest. The quantity of information furnished is so large that it overwhelms the reader. As a result, all of it is often ignored -- a phenomenon known as "information overload."

So creditors now incur costs which are passed on to consumers in order to comply with a law which gives the consumer little benefit. Fortunately, the folly of the situation has been recognized by members of the Congress. The Senate will hopefully consider a bill soon which is designed to simplify the Truth in Lending Act and to restore a better balance between the costs and the benefits. Several bills have also been introduced in the House of Representatives with similar objectives. I hope that all of you will work to urge the Congress to correct the present bad situation which is contributing to inflation in such a way that nobody wins.

The second reason regulatory policy is inflationary is that even when the laws themselves do not create problems, they are often imperfectly administered. In other words the rules to implement good laws are often poorly constructed. I know that as a bureaucrat myself with regulatory responsibilities, I'm walking on treacherous ground when I make this statement. On the other hand, my personal experiences over the last few years have given me an insight often not understood by the general public. I see several causes of imperfect implementation of our laws by regulatory bodies.

There presently exists an attitude of general public suspicion which prohibits the recruitment of the most experienced people to serve in positions of public regulatory responsibility. Too many of us continue to believe that because an individual has spent a lifetime in a particular occupation his judgment is forever poisoned and biased. Some people in our country don't have enough trust in their fellow citizens to believe that it is possible for an individual to leave one value system and change to another in serving the public interest. As a result, we don't have our most capable and experienced people working in the regulatory system of government. These jobs are too often filled by those who don't wholly understand the problem or have limited knowledge of the consequences of their proposed solutions to the problem.

Notice that I did not say that those who serve are dishonest, laggardly or working against what they believe to be in the public interest. I only said that they lack the level of knowledge to propose programs and solutions to problems which would cost the least and produce the greatest benefit. That is, they would be noninflationary or have as little inflationary impact as possible.

This situation is exacerbated by a lack of participation in the regulatory process by those most directly affected. Here again, a few notorious abuses by improper ex parte relationships have obscured the underlying problem and caused a biased result. I have been genuinely astonished at how little public comment is received by regulatory bodies in response to proposed regulations. Perhaps this is because a large number of people don't really care. Perhaps those who care are afraid of being accused of improper communication or perhaps it is because those who do care have been discouraged and don't think that it will make any difference if they participate. I am convinced that participation makes all the difference. The only cure for the endemic disease which we know as

Potomac Myopia is a treatment of more and better public participation in the regulatory process. It will produce a depth and breadth of knowledge on the part of the regulators before final action is taken. If suspicion and mistrust block the experienced and knowledgeable from serving as regulators, then the only alternative is better input and participation by those who are knowledgeable.

I doubt that there is a person in this audience who doesn't believe that government is less efficient than the private sector, that government seldom contributes to more productive methods, or that most government intervention in our lives results in a more inflationary economic environment. If this be so, it seems contradictory to observe that we continue our trend to transfer functions from the private sector to the government sector.

Oh, I know that voting for less government every two years in November is good campaign rhetoric. Many times we vote that way based on the candidate who promises less government. But unfortunately the day after an election we change our minds and push for the opposite direction. We then vote for bigger and bigger government by wanting the government to solve our problems rather than finding our own solutions. Moreover, we tend to blame others for the consequences. I used to have the fallacious idea that business and professional people were more conservative than labor, consumers, educators or other elements of our society in wanting government to protect their interests and to cure their problems. My experiences in the last few years have taught me the contrary. None of these groups has any special right to point the finger at any others. Each of them is equally guilty in turning to government quickly the minute their own ox gets into a ditch.

Yet, if we are willing to stop pointing a finger at others, what pragmatic personal steps could be taken in order to make an individual contribution to combating inflation? Let me suggest some.

Make the levels of government we now have more effective by personally participating in the process. Get involved! Not only vote in elections; express your opinions to those who are elected. Also communicate with bureaucrats like me. You would be surprised how much difference these actions would make.

Next, have the personal courage and gumption to seek solutions to your problems yourself without turning to the government for help. In addition, have the willingness to withdraw from the comfortable shade of government protection which some of us now enjoy in our businesses and occupations. Begin living in the heat of a tough, competitive, unsheltered environment.

Third, have the concern and compassion for your country, your state, your city, your neighborhood, your fellow man, even your own family that compels you personally to respond to their needs. Resist the temptation to hope that someone else will do it. If this takes place, we will quickly find that the results produced solutions to our problems which are not only quicker and less costly but better adapted to the needs of the individual situation or individual.