

THE POSITION OF THE DOLLAR

Remarks by

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A REMARKABLE PHENOMENON OF THE PAST COUPLE OF YEARS HAS BEEN THE UPSURGE IN PUBLIC ATTENTION PAID TO DEVELOPMENTS IN WHAT WAS FORMERLY A RATHER ARCAINE AREA, NAMELY, THE FOREIGN EXCHANGE MARKETS. AT CERTAIN TURBULENT TIMES THE STATE OF THE DOLLAR IN THE DAY'S TRADING HAS BEEN THE HEADLINE OR, AT LEAST, THE FEATURE STORY ON THE EVENING TV NEWS. REPORTS ON THE DOLLAR'S FATE HAVE BECOME A STAPLE ON THE MORNING NEWS WE HEAR ON OUR CAR RADIOS AS WE DRIVE TO WORK. WE HEAR EARLY RESULTS FROM TOKYO TRADING ON OUR CLOCK RADIOS AS WE GO TO BED.

WHY ALL THIS ATTENTION TO THE DOLLAR'S VALUE IN TERMS OF OTHER CURRENCIES? I THINK THAT IT IS BECAUSE LARGE AND RAPID CHANGES IN THE FOREIGN EXCHANGE VALUE OF A CURRENCY ARE OFTEN AN INDICATION OF CHANGES IN PUBLIC CONFIDENCE IN THE GOVERNMENT'S ECONOMIC POLICIES. THUS, THE SUBSTANTIAL DEPRECIATION OF THE DOLLAR IN 1977-78, AND THE RE-EMERGENCE OF HEAVY SELLING PRESSURE ON THE DOLLAR IN LATE SUMMER OF 1979 WERE SIGNALS THAT THE FINANCIAL MARKETS THOUGHT THAT U.S. ECONOMIC POLICY WAS FAILING TO MAKE PROGRESS IN DEALING WITH THE MAJOR ECONOMIC PROBLEM OF OUR TIME, INFLATION.

AT THE SAME TIME THAT A SUBSTANTIAL DEPRECIATION OF A CURRENCY OVER A SHORT TIME PERIOD MAY REPRESENT A PUBLIC VOTE OF NO-CONFIDENCE ON INFLATION POLICY, THE DEPRECIATION ITSELF MAY

ACTUALLY WORSEN INFLATION -- OR AT LEAST APPARENT INFLATION. THIS HAPPENS PRINCIPALLY BECAUSE A DEPRECIATION OF THE DOLLAR RAISES THE PRICE OF GOODS IMPORTED INTO THE UNITED STATES FROM FOREIGN COUNTRIES. THE INCREASES IN PRICES OF IMPORTED GOODS RAISE THE GENERAL PRICE LEVEL OF GOODS AND SERVICES PURCHASED BY U.S. CONSUMERS. THE RESULTING INCREASE IN THE PRICE LEVEL, OCCURRING OVER A PERIOD OF, SAY, ONE MONTH, IS THEN FREQUENTLY MULTIPLIED BY 12 IN NEWS REPORTS TO GIVE AN APPARENTLY SUBSTANTIAL WORSENING OF THE ANNUAL RATE OF INFLATION. AND THERE IS A DANGER THAT THIS APPARENT ACCELERATION OF INFLATION MAY GET BUILT INTO EXPECTATIONS, CAUSING DOMESTIC WAGE EARNERS AND PRODUCERS TO TRY TO RAISE THEIR OWN WAGES AND PRICES EVEN FASTER.

FINALLY, THE ANNOUNCEMENTS OF SEVERAL POLICY ACTIONS IN RECENT YEARS, INCLUDING SOME BY THE FEDERAL RESERVE, HAVE CITED THE WEAKNESS OF THE DOLLAR AS ONE OF THE MOTIVES FOR THE ACTIONS. ALL OF THESE FACTORS HAVE COMBINED, I THINK, TO MAKE THE GENERAL PUBLIC MUCH MORE INTERESTED AND AWARE OF THE FOREIGN EXCHANGE VALUE OF THE DOLLAR.

ONE REACTION TO THIS INCREASED AWARENESS OF FLUCTUATIONS, PARTICULARLY DEPRECIATIONS, IN THE DOLLAR'S VALUE HAS BEEN A SUGGESTION THAT WE "RETURN TO THE GOLD STANDARD." NOW, A RETURN TO THE GOLD STANDARD CAN MEAN DIFFERENT THINGS. IT COULD MEAN SIMPLY RE-ESTABLISHING A COMMITMENT ON OUR PART TO CONVERT ON DEMAND HOLDINGS OF DOLLARS OF FOREIGN MONETARY AGENCIES INTO GOLD AT SOME

FIXED PRICE. THIS COULD SERVE AS A BASIS FOR RE-ESTABLISHING FIXED EXCHANGE RATES. OR IT COULD MEAN RE-ESTABLISHING A FULL GOLD STANDARD, ENCOMPASSING FREE CONVERTIBILITY OF CURRENCY INTO GOLD BY THE GENERAL PUBLIC, EITHER IN THE UNITED STATES ALONE OR IN ALL COUNTRIES. IN THE FACE OF OUR RECENT INFLATION EXPERIENCE, A FULL GOLD STANDARD HAS SUPERFICIAL APPEAL -- SURELY THE PURCHASING POWER OF THE DOLLAR WOULD HAVE DECLINED LESS IF THE DOLLAR HAD BEEN TIED TO GOLD. THE APPEAL OF LIMITED, EXTERNAL CONVERTIBILITY INTO GOLD -- THAT IS, FIXED EXCHANGE RATES -- IS MUCH LESS CLEAR. FIXED EXCHANGE RATES ARE UNLIKELY TO WORK WHERE GOVERNMENTS ARE FREE TO MANAGE THEIR CURRENCIES INDEPENDENTLY AND, THUS, TO PRODUCE DIFFERING RATES OF INFLATION IN DIFFERENT COUNTRIES. IN SUCH CIRCUMSTANCES, DIFFERENCES IN THE EXTERNAL AND INTERNAL PURCHASING POWERS OF CURRENCIES WILL PRODUCE IRRESISTIBLE PRESSURES FOR CHANGE. EITHER THE SO-CALLED FIXED EXCHANGE RATES WILL BE CHANGED PERIODICALLY, OR RESTRICTIONS WILL BE IMPOSED ON THE FREE TRADE OF GOODS, SERVICES, AND CAPITAL AS GOVERNMENTS TRY TO BALANCE THEIR EXTERNAL ACCOUNTS THROUGH THE USE OF DIRECT CONTROLS. THIS IS THE LESSON OF THE DISINTEGRATION OF THE FIXED EXCHANGE RATE REGIME IN THE LATE 1960'S AND EARLY 1970'S.

SERIOUS PROBLEMS WOULD EXIST WITH A FULL GOLD STANDARD -- THAT IS, THE FREE CONVERTIBILITY OF CURRENCY INTO GOLD BY THE PUBLIC. FIRST, THERE WOULD BE THE PROBLEM OF ESTABLISHING AN APPROPRIATE INITIAL PRICE OF GOLD. A PRICE THAT WAS SET TOO HIGH

COULD IMPLY A RAPID INCREASE IN THE PRICE LEVEL AS PEOPLE SOLD THEIR GOLD TO THE GOVERNMENT FOR DOLLARS (AND THEN SPENT THOSE DOLLARS ON GOODS AND SERVICES). A PRICE THAT WAS SET TOO LOW COULD MEAN A DRASTIC DEFLATION/DEPRESSION AS PEOPLE TURNED THEIR DOLLARS IN FOR GOLD (AND STOPPED BUYING GOODS AND SERVICES). SECOND, THERE WOULD BE THE PROBLEM OF MAINTAINING AN APPROPRIATE PRICE OF GOLD OVER TIME. VARIATIONS IN THE REAL COSTS OF PRODUCING GOLD, OR VARIATIONS IN THE DEMAND FOR GOLD AS AN INDUSTRIAL COMMODITY WOULD LEAD TO ARBITRARY VARIATIONS IN THE QUANTITY OF DOLLARS IN CIRCULATION AND, HENCE, IN THE GENERAL PRICE LEVEL.

THE ULTIMATE AIM OF THOSE WHO SUPPORT A RETURN TO A FULL GOLD STANDARD IS TO END INFLATION. I SUPPORT THIS END BUT BELIEVE THAT IT COULD BE BETTER REACHED UNDER EXISTING INSTITUTIONS. I WILL RETURN TO THE SUBJECT OF APPROPRIATE ANTI-INFLATION POLICY SHORTLY.

AS FAR AS THE EXCHANGE RATE SYSTEM IS CONCERNED, I BELIEVE THAT, BY AND LARGE, THE SYSTEM OF MANAGED FLOATING HAS SERVED US WELL. EXCHANGE RATES OVER THE LONGER RUN HAVE REFLECTED FUNDAMENTAL ECONOMIC TRENDS, AND EXCESSIVE SHORT-RUN MOVEMENTS HAVE BEEN AMENABLE TO CONTROL BY COORDINATED EXCHANGE MARKET INTERVENTION BY CENTRAL BANKS.

OVER THE PAST SEVEN YEARS OF FLOATING, THE DOLLAR HAS DEPRECIATED AGAINST SOME MAJOR CURRENCIES, APPRECIATED AGAINST

OTHERS, AND HAS SHOWN LITTLE NET CHANGE AGAINST STILL OTHERS. THE LARGEST DEPRECIATIONS HAVE BEEN AGAINST THE SWISS FRANC AND THE GERMAN MARK; THE LARGEST APPRECIATIONS HAVE BEEN AGAINST THE ITALIAN LIRA AND THE CANADIAN DOLLAR; AGAINST STERLING AND THE YEN IT HAS CHANGED BY LESS THAN 10 PERCENT. ON AVERAGE, ACCORDING TO THE INDEX WE USE AT THE FEDERAL RESERVE BOARD, THE DOLLAR HAS DEPRECIATED BY 13 PERCENT SINCE MARCH 1973 AGAINST 10 LEADING FOREIGN CURRENCIES.

OVER A PERIOD OF YEARS, THE MAJOR FACTOR DETERMINING THE LEVEL OF EXCHANGE RATES IS DIFFERENCES IN INFLATION RATES AMONG COUNTRIES. THE CURRENCIES OF HIGH INFLATION COUNTRIES MUST DEPRECIATE IN ORDER THAT THE EXPORT PRICES OF THOSE COUNTRIES MAY REMAIN COMPETITIVE WITH THOSE OF LOW INFLATION COUNTRIES. SINCE MARCH 1973, THE CONSUMER PRICE LEVEL OF THE UNITED STATES HAS RISEN BY 39 PERCENT MORE THAN THAT OF SWITZERLAND, AND 32 PERCENT MORE THAN THAT OF GERMANY, THE TWO COUNTRIES AGAINST WHOSE CURRENCIES THE DOLLAR HAS SHOWN THE GREATEST DEPRECIATION OVER THIS PERIOD. SIMILARLY, THE U.S. CPI HAS RISEN BY 37 PERCENT LESS THAN THE ITALIAN CPI, AGAINST WHICH CURRENCY THE DOLLAR HAS SHOWN THE LARGEST APPRECIATION.

WHILE RELATIVE INFLATION RATES ARE THE SINGLE MOST IMPORTANT DETERMINANT OF EXCHANGE RATES OVER A LONG PERIOD OF TIME, OTHER FACTORS ALSO INFLUENCE EXCHANGE RATES, PARTICULARLY OVER A SHORTER TIME. IN THE VERY SHORT RUN, IT IS EXPECTATIONS ABOUT THE FUTURE VALUES OF BASIC ECONOMIC FACTORS -- OFTEN REFERRED TO AS

"PSYCHOLOGICAL" FACTORS -- WHICH DOMINATE MOVEMENTS IN EXCHANGE RATES.

PERHAPS THE MOST IMPORTANT OF THESE OTHER ECONOMIC FACTORS IS COUNTRIES' CURRENT ACCOUNT BALANCES -- THE EXCESS OR DEFICIENCY OF RECEIPTS FROM FOREIGNERS ARISING FROM THE EXPORT AND IMPORT OF GOODS AND SERVICES. BUT EVEN HERE, THERE IS NO SIMPLE, DIRECT RELATIONSHIP BETWEEN CONTEMPORANEOUS CURRENT-ACCOUNT BALANCES AND EXCHANGE RATES. FOR EXAMPLE, THE DOLLAR REMAINED RELATIVELY STEADY IN 1976 AND EARLY 1977 DESPITE THE EMERGENCE OF A RECORD U.S. CURRENT-ACCOUNT DEFICIT, FOLLOWING A SUBSTANTIAL SURPLUS IN 1975. THIS DEFICIT WAS GENERALLY REGARDED AT THE TIME AS A SHORT-TERM CYCLICAL PHENOMENON, SINCE THE U.S. RECOVERED MORE RAPIDLY FROM THE 1974-75 RECESSION THAN DID ITS MAJOR TRADING PARTNERS. THE DEFICIT WAS EXPECTED TO BE REDUCED WHEN OUR TRADING PARTNERS' EXPANSION CAUGHT UP WITH OUR OWN. IT WAS NOT UNTIL LATE 1977, WHEN FORECASTS BEGAN CIRCULATING SHOWING A U.S. DEFICIT FOR 1978 ABOUT AS LARGE AS THAT OF 1977, THAT THE MARKET BEGAN TO SEE THE U.S. DEFICIT AS SOMETHING MORE THAN TEMPORARY, REQUIRING A SIGNIFICANT DEPRECIATION OF THE DOLLAR TO CORRECT; AFTER THAT CHANGE IN SENTIMENT, THE DOLLAR BEGAN TO DROP SHARPLY. FROM THE END OF SEPTEMBER 1977 TO THE END OF DECEMBER 1978, THE DOLLAR DEPRECIATED BY ABOUT 15 PERCENT ON AVERAGE. IN 1979, THE DOLLAR SHOWED LITTLE NET CHANGE, DESPITE A SUBSTANTIAL IMPROVEMENT IN OUR CURRENT ACCOUNT TO NEAR BALANCE. APPARENTLY THEN, THE IMPACT OF

THE CURRENT ACCOUNT BALANCE ON THE EXCHANGE RATE DEPENDS ON WHETHER THE MARKET VIEWS A DEFICIT OR SURPLUS AS TEMPORARY OR AS REQUIRING AN EXCHANGE-RATE CHANGE TO ADJUST THE BALANCE TO A SUSTAINABLE POSITION.

YET ANOTHER IMPORTANT ECONOMIC FACTOR IN THE DETERMINATION OF EXCHANGE RATES IS SHORT-TERM INTEREST RATE DEVELOPMENTS. HERE AGAIN THERE IS NO SIMPLE, DIRECT RELATIONSHIP. WHERE INTEREST-RATE DIFFERENTIALS MOVE SO AS TO JUST COMPENSATE FOR EXPECTED INFLATION DIFFERENTIALS, THERE IS NO NOTICEABLE EFFECT ON EXCHANGE RATES. WHERE INTEREST-RATE CHANGES ARE TAKEN AS INDICATORS OF CHANGES IN MONETARY POLICY, HOWEVER, EFFECTS ON EXCHANGE RATES CAN BE DRAMATIC. THIS SEEMS TO HAVE BEEN THE CASE IN THE RECENT PERIOD FROM MID-FEBRUARY THROUGH EARLY APRIL AS U.S. SHORT-TERM INTEREST RATES SOARED AND THE DOLLAR APPRECIATED BY 10 PERCENT. THEN, AS INTEREST RATES SUBSEQUENTLY PLUMMETED, THE DOLLAR DROPPED BY 8 PERCENT FROM EARLY APRIL TO MID-MAY. TOWARDS THE END OF THIS PERIOD, THE MARKET SEEMS TO HAVE REALIZED THAT THESE INTEREST RATE DECLINES DID NOT SIGNIFY A RELAXATION OF MONETARY POLICY BUT, RATHER, A REDUCTION IN THE DEMAND FOR MONEY AS ECONOMIC ACTIVITY IN THE UNITED STATES APPARENTLY DECLINED ABRUPTLY. INDEED, FROM MID-FEBRUARY THROUGH MID-MAY, THE DOLLAR SHOWED ESSENTIALLY NO NET DECLINE, DESPITE THE FACT THAT U.S. SHORT-TERM INTEREST RATES HAD DROPPED RELATIVE TO FOREIGN RATES BY A NET 5 PERCENT.

AS FOR THE OUTLOOK FOR THE DOLLAR, WE CAN BE REASONABLY OPTIMISTIC. U.S. INFLATION IS EXPECTED TO DECLINE OVER THE COURSE



OF THE NEXT YEAR. AND THE U.S. CURRENT ACCOUNT, WHILE MOVING INTO DEFICIT IN 1980 AS A RESULT OF 1979'S OPEC OIL PRICE RISE, SHOULD IMPROVE SIGNIFICANTLY IN 1981. THE CURRENT-ACCOUNT BALANCES OF THE OTHER TWO LARGEST ECONOMIES, JAPAN AND GERMANY, ARE EXPECTED TO REMAIN IN SUBSTANTIAL DEFICIT OVER THE 1980-81 PERIOD. IN THESE CIRCUMSTANCES, THE DOLLAR SHOULD AT LEAST HOLD ITS OWN IN EXCHANGE MARKETS, ON AVERAGE, OVER THE NEXT YEAR OR SO.

IF THERE ARE SHORT-RUN PERIODS WHEN THE DOLLAR MOVES SO FAR AS TO BE CLEARLY OUT OF LINE WITH ECONOMIC FUNDAMENTALS, WE WILL DEAL WITH THIS BY INTERVENING IN THE EXCHANGE MARKETS TO THE APPROPRIATE EXTENT. OVER THE LONGER RUN, AS I HAVE SAID, WHAT HAPPENS TO THE DOLLAR ABROAD IS MAINLY A CONSEQUENCE OF WHAT HAPPENS TO THE DOLLAR AT HOME, THAT IS, OUR DEGREE OF SUCCESS IN DEALING WITH INFLATION. IT IS THIS PROBLEM TO WHICH I WILL NOW TURN.

EVIDENCE HAS BEEN MOUNTING IN RECENT WEEKS AND MONTHS THAT OUR ECONOMY HAS ENTERED A PERIOD OF DOWNTURN. AT THE SAME TIME, INFLATIONARY PRESSURES REMAIN DANGEROUSLY STRONG. THIS SEEMING PARADOX POINTS UP THE COMPLICATED NATURE OF OUR INFLATION PROBLEM. THE EXISTENCE OF EXCESSIVE DEMAND PRESSURES HAS FOR SOME TIME BEEN ONE ASPECT OF THAT PROBLEM. THIS IS THE ALL TOO FAMILIAR STORY OF "TOO MUCH MONEY CHASING TOO FEW GOODS." WHEN OUR DEMAND FOR PRODUCTS EXCEEDS THE NATION'S CAPACITY TO PRODUCE

THOSE PRODUCTS, WE WIND UP BIDDING AGAINST EACH OTHER FOR THE THINGS WE DESIRE. AS THIS PROCESS WORKS ITS WAY THROUGH THE ECONOMY, THE RESULT IS INFLATION.

IF SO-CALLED "DEMAND-PULL" INFLATION IS THE MOST OFF-CITED VARIETY, IT IS BY NO MEANS THE ONLY IMPORTANT ONE. "COST-PUSH" INFLATION AS WELL HAS BEEN ALL TOO FAMILIAR IN RECENT YEARS. RISING ENERGY PRICES, CAUSED BY THE UNILATERAL ACTIONS OF THE OPEC NATIONS, HAVE POSED A DRAMATIC EXAMPLE. FEW, IF ANY, SUPPLIERS OF GOODS AND SERVICES HAVE ESCAPED THE PRESSURE TO INCREASE PRICES POSED BY THE NEED TO COVER THE RISING ENERGY COSTS OF DOING BUSINESS. A SEEMINGLY ENDLESS PROLIFERATION OF REGULATORY BURDENS -- IMPOSED ON BUSINESS BY ALL LEVELS OF GOVERNMENT -- HAS ALSO HAD A PERVASIVE EFFECT ON COSTS AND THUS ON INFLATION. THE WAGE AND PRICE DETERMINATION PROCESSES IN CERTAIN SECTORS OF OUR ECONOMY, THE APPLICATION OF MINIMUM WAGE LAWS TO OUR YOUNG PEOPLE, AND THE STRUCTURE AND OPERATION OF SOME OF OUR SOCIAL WELFARE PROGRAMS, ALL PROVIDE ADDITIONAL ILLUSTRATIONS OF FACTORS THAT, THROUGH THE "COST-PUSH" MECHANISM, GENERATE INFLATIONARY PRESSURES.

FINALLY, WE CAN IDENTIFY WHAT MIGHT BE CALLED "STRUCTURAL FACTORS" THAT HAVE CONTRIBUTED TO INFLATION. THE U.S. ECONOMY -- AND INDEED THOSE OF ALL THE MAJOR INDUSTRIAL COUNTRIES -- HAS BENEFITED ENORMOUSLY IN THE PAST FROM THE IMPROVED TECHNOLOGY AND GREATER EFFICIENCY THAT HAVE BEEN ASSOCIATED WITH NEW INVESTMENT IN PLANT AND EQUIPMENT. THE TENDENCY OF RECENT YEARS TOWARDS

SUBSTANTIALLY REDUCED SAVINGS AND INVESTMENT ON THE PART OF THE AMERICAN PEOPLE HAS HURT OUR PRODUCTIVITY RECORD AND, THUS, HAMPERED OUR FIGHT AGAINST INFLATION. RELATIVE ADVANTAGES IN PRODUCTION NATURALLY CHANGE OVER TIME AND IT IS NOT A MATTER FOR CONCERN IF, FOR EXAMPLE, THE U.S. PRODUCES FEWER TEXTILES AND MORE COMPUTERS THAN IT ONCE DID. BUT SOME HAVE SUGGESTED THAT THERE HAS BEEN A SLACKENING IN THE OVERALL COMPETITIVE VIGOR OF AMERICAN LABOR AND INDUSTRY. ONE THEORY IS THAT, AS THE SCOPE OF GOVERNMENT AND OF TAXATION HAVE INCREASED, THE COSTS OF FAILURE AND THE REWARDS OF SUCCESS HAVE BOTH BEEN REDUCED TO DANGEROUSLY LOW LEVELS. TO THE EXTENT THAT THESE FACTORS ARE OPERATIVE, THEY ROB US OF THE PRICE-REDUCING OPPORTUNITIES INHERENT IN A COMPETITIVE ECONOMY AND EXPOSE US FURTHER TO INFLATIONARY TENDENCIES.

I EXPECT YOU WOULD AGREE WITH ME -- AND EACH OF YOU COULD CITE YOUR OWN FAVORITE ILLUSTRATIONS -- THAT INFLATION IS INDEED A COMPLICATED PROCESS. BUT THIS DOES NOT MEAN THAT WE ARE POWERLESS AGAINST IT. WE DO, HOWEVER, NEED A BROAD-BASED STRATEGY TO DEAL WITH INFLATION. FIRM MONETARY AND FISCAL POLICIES ARE, OF COURSE, THE ESSENTIAL INGREDIENTS IN DAMPENING "DEMAND-PULL" INFLATION. I CAN SPEAK MOST AUTHORITATIVELY ABOUT MONETARY POLICY: THE FEDERAL RESERVE SYSTEM HAS, AS YOU KNOW, BEEN EMBARKED ON A FIRM ANTI-INFLATIONARY COURSE FOR SOME TIME; I CAN ASSURE YOU THAT WE INTEND TO PERSEVERE, BUT, AS MY REMARKS HAVE SUGGESTED, MACRO ECONOMIC POLICIES NEED TO BE SUPPLEMENTED BY ADDITIONAL MEASURES

AIMED AT THE COST-PUSH AND STRUCTURAL FACTORS THAT ARE CONTRIBUTING TO INFLATION. THERE ARE MANY OPPORTUNITIES IN THESE AREAS, BUT OUR MOST URGENT NEEDS, AS I SEE THEM, ARE (1) TO REDUCE THE SIZE OF GOVERNMENT IN THE U.S. ECONOMY AND INCREASE THE INCENTIVES FOR PRIVATE SAVINGS, INVESTMENT, MODERNIZATION, AND INNOVATION, (2) TO REDUCE SUBSTANTIALLY THE REGULATORY BURDEN NOW IMPOSED ON U.S. BUSINESS, (3) TO FURTHER DEVELOP A SYSTEM OF VOLUNTARY GUIDELINES THAT WOULD DISCOURAGE WAGE AND PRICE DEMANDS THAT ARE OUT OF LINE WITH THE GENERAL TENDENCIES IN THE ECONOMY, AND (4) TO CONTINUE TO REDUCE OUR DEPENDENCE ON IMPORTED OIL.

INFLATION HAS GATHERED MOMENTUM OVER A PERIOD OF YEARS AND IT WILL TAKE TIME TO ERADICATE IT. I EXPECT THAT WE WILL WITNESS PERIODS OF ENCOURAGING PROGRESS -- BUT ALSO UNEXPECTED SETBACKS. ABOVE ALL, WE WILL NEVER BE QUITE SURE WHAT THE FUTURE HOLDS IN STORE; NONETHELESS WE WILL NEED TO FORM JUDGMENTS, BOTH IN OUR OWN LIVES AS INDIVIDUALS AND ON NATIONAL POLICY. THE POSITION OF THE DOLLAR IN FOREIGN EXCHANGE MARKETS DESERVES OUR CLOSE ATTENTION AS WE GO ALONG. SHARP MOVEMENTS IN EXCHANGE RATES ONE WAY OR THE OTHER CAN, AS I HAVE NOTED, EXERT AN INFLUENCE ON THE FUTURE COURSE OF INFLATION. PERHAPS MORE IMPORTANT, THEY WILL SUGGEST A MARKET VIEW AS TO HOW MUCH PROGRESS IS BEING MADE IN THE FIGHT AGAINST INFLATION.