

**THE SHORT RUN AND THE LONG RUN**

**Remarks by**

**Henry C. Wallich**

**Member, Board of Governors of the Federal Reserve System**

**at the Commencement Exercises**

**Washington College**

**Chestertown, Maryland**

**Sunday, May 17, 1981**

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You have spent four years at this college - preparing for a future life expectancy, according to the mortality tables, of about 54 years, women about seven years more than men. The education that Washington College has produced for you will have to last longer than almost any product generated in the American economy. Even the IRS, with which many of you will soon make your acquaintance, does not expect the useful life of the most durable structure in commercial use to exceed 40 years.

Such a long look ahead is, of course, appropriate not only to those responsible for operating a college, but for the graduating class as it faces the future.

Graduation is a good moment for such a look, when remembrance of time spent here intersects with hopes and plans for the longer time to be spent outside. Hard as it may sometimes have been to believe, there is a life after college. That is why I want to direct the remarks I am privileged

to make, on the occasion when Washington College is bestowing on me the honor of a degree, to the importance of taking a long-run view.

The habit of taking a long-run view of things, I believe, has much diminished in recent years. This seems apparent from the way in which we have allowed the growth of our economy to lag for the sake of immediate satisfactions. We have increased consumption and reduced savings and therewith investment in future productivity. We have been hesitant to come to grips with the problem of inflation which beclouds our future because of the fear of temporary pain from the actions needed. We have treated ourselves to "entitlements" of all sorts without providing the means of paying for them. And in our business functions, we have laid ourselves open to the charge that our habit of focusing on the profits of the next quarter makes us vulnerable to being overtaken by more long-run oriented competitors like the Japanese.

It is one of the great virtues of a liberal education that it enables one to meet new problems as they arise. It gives one not so much particular techniques but the ability to analyze a problem and to devise the means of dealing with it. This capability, which you have acquired here, will be very much needed and will stand you in good stead in taking a long-run point of view.

To take a long-run point of view has become increasingly more difficult and yet more urgent as the nation as a whole has neglected it. It is not easy today to plan for the future when the principal financial yardstick, the value of money, has become so uncertain. You do not know how much things will cost, whether you will be able to buy a house, how to

provide for the education of your children or, far down the road, for your retirement. That makes it tempting not to try to look ahead and instead to live in the present. It encourages the "live now, pay later" mentality. Indeed, if one can expect to repay one's debt in depreciated currency, why not borrow as much as one can? If one must fear that any savings one makes will only depreciate from inflation, what sense does it make to save? In this way, the lack of foresight of the nation discourages the exercise of foresight on the part of individuals. I doubt that most people would move in that direction voluntarily -- but, if they are not given firm bearings for making their own plans, what else can they do?

Yet today, many aspects of our society and our technology require a longer viewpoint because the processes involved take more time. One example of this is the protection of our environment. The consequences of abusing it may be slow in coming, but they are hard to reverse once they are upon us. It is wise, in such matters, to take the long-run view, to pay the price today for benefits that may not be immediately visible, and to speak out against evils that may not seem so threatening in the near term. Another example is the progressive exhaustion of the world's oil resources. There is still plenty of oil and for a good many years. But we must look for the day of mounting shortages and prepare intensively now. It takes many years to increase oil production, to build nuclear power stations, to change the character of our cars, our homes, our transportation systems, and our cities.

A third example is the increasing strain we are throwing on our financial system and resources. We make borrowing as easy as possible. We give the borrower all the support we can through tax deduction of interest. We give him the full benefit of inflation and the depreciation in the value of his debt. All these practices help to weaken the mechanism from which credit must come in the future as it has in the past. The benefits are in the short run, the costs come later.

All these conflicts between the short-run and the long-run view have one feature in common. We use our economic and societal machinery too hard and pay too little attention to its maintenance. We take for granted that the machinery is in place, that it functions, and that all we need to do is to run it at the highest possible speed. But, economic and societal machinery is not built to take unlimited punishment. It needs to be carefully maintained. It needs to be operated at speeds that do not damage it. Cutting corners, taking chances, ignoring safety margins, will do damage in the long run, even if all seems to go well in the short run.

We already see many of the consequences of past neglect -- in the form of our inflation, declining productivity, and uncertainty about future supplies of oil and other resources. We see them in the way we are being overtaken economically by other countries and in the way in which our influence in the world has diminished. We are now experiencing the long-run consequences of the many short-run expediencies resorted to in the past. Having too often chosen the easy way, all future options are becoming harder and less inviting.

I do not believe that this must be a lasting condition. We can learn from past mistakes. American society, I believe, is particularly capable of that kind of learning. It is a learning process that does not go on in college, but for which a college education, as I have said, nevertheless is an excellent preparation. This learning from past experience can, and indeed must, go on all one's life. It is based on the ability to analyze, to see current problems in the light of general principles, the ability to take a long view. The preparation for that future process is what college education is all about.

If we are willing to take that kind of a look at where we have been, where we are, and where we should be going, we shall be able to make progress in many directions. We can end our inflation, raise the output of our economy, and make our future more secure. We can improve our society and the quality of our life at home and strengthen our role abroad and contribute to the peace and progress of the world. These gains will not always come cheaply. They will require sacrifices in the short run. But, over the years, this investment will pay off. Indeed, if we do not make the sacrifices and invest in our future, then the ultimate cost in terms of living standards and quality of life will be far higher.

You may ask why it should be up to you to mend the neglects of long ago. You are not responsible for the present state of the world -- why shouldn't you take it as it is and leave it as you found it? You did not inherit a bed of roses -- why should you make great efforts to leave one to your posterity, far off as that is?

I believe, first, that anything a new generation does to improve the world will in good part redound to its own benefit. You are at a stage

in life where most of the things that you do, including any that would make this a better place to live in, will mature in time for you to reap the rewards. By the same token, of course, you are young enough to have to endure the consequences of any failures and neglect of which you may become guilty. Seen in this light, all I am saying, in suggesting that you take a long-run view of the world, is that this will be in your enlightened selfinterest.

But beyond that, I would not want you to think that you are not very fortunate in the world that you are inheriting, warts and all. You could not build this country in your lifetime. This country was built over hundreds of years. Whatever you receive from it is the legacy of past generations, in which the good vastly outweighs the bad. This, I believe, gives you a responsibility toward your ultimate successors. You will meet this responsibility of passing on a good country and a good economy if you make it a habit to take a long-run view of things.

As I go about my travels -- I came back from abroad on Friday and am leaving again on Monday, the airlines willing -- I sometimes find myself in a place that makes me ask what would I do if I lived here? Every so often my gut response is -- I would get out as soon as I could and try to go to a country like the United States. That does not mean that I have temporarily ceased to remember the problems we have, the problems we have failed to deal with, nor the problems we shall have hereafter if we do not deal with them in advance. With all of them I have been concerned in these remarks. But, I would not want you to believe that you were not starting out in a pretty privileged part of the world. We have a responsibility to keep it that way.

Since you have asked an economist to talk to you on this occasion, you may want to hear these matters explored a little more from an economic point of view. What I have said so far, of course, is economics. I have talked about the choices we must make, especially between the short and the longer run approach, and economics is a social science dealing particularly with choices. Economics tells you that, because resources are limited, you cannot have everything at once. You have to pay for what you get, that more of anything means less of something else. The important thing is that the choices should be made intelligently and in full knowledge of the consequences.

I have argued that our past choices have not been good, perhaps because they were uninformed, or perhaps we did not adequately consider their consequences. We have asked too much of the economy, we have taken out too much, and put back in too little. That procedure, continued over many years, has got us into the present inflation. For years inflation was not recognized as a great evil, but by now that realization is general. Bringing down inflation is now widely recognized as our highest priority.

This broad national agreement is a basic condition for success, and its existence is the principal element of strength in our situation. But we must realize that, in the nature of economics, results are not to be had for free. Something has to be paid for getting results. That, too, seems to be widely realized. There seems to be widespread belief that the government has been spending too much and must cut back. There is a widespread belief also, while taxes are excessive, they should not be cut unless expenditures are cut. Finally, there seems to be a much increased willingness to accept temporarily high interest rates, painful as they are, as the price of slowing down the expansion of credit and money and bringing down inflation.



Indeed, whichever way you look, there are costs to bringing down inflation. That is why we have searched in so many directions for a cheaper way, confirming the belief that in the end we shall always do the right thing after trying everything else first.

But it is not only the actions of the government that count, much as government policy bears responsibility for inflation. Inflation has deep roots in the behavior of most of us -- businessmen, homeowners, consumers, workers. I do not usually find it very helpful to tell people that they must restrain themselves -- in the prices they charge, the wages they demand, the amount of debt they incur. But on an occasion like this, in a key moment in your lives, perhaps such a reminder is not out of order. We can all make a contribution to bringing down inflation.

Of course, the choices here involved are not the only ones that have to be made. The principal theme of my remarks has been that we must choose between short-run and long-run goals. The graduating class of Washington College and their parents have made one such choice -- in favor of a longer run view, by investing the early years of your lives in a liberal arts education. It is an investment in a greater capability for dealing with the future. This choice, I should add, has also been made by the entire community which has contributed to this college over many years and has made possible education that would not be supplied without an enduring foundation of this kind. That makes your graduation day a suitable occasion for taking a long look ahead into the future.