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PUBLIC AND PRIVATE RESPONSIBILITIES FOR ECONOMIC STABILITY

Remarks of

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at the

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Public and Private Responsibilities for Economic Stability

As I travel around the United States I often hear the comment, "Why don't you people in Washington do something about this recession and inflation? It's time for the United States to return to a period of stable growth with full employment. We think our Government should do something about it." Well, your Government is trying to do something about it. But it cannot do the whole job by itself. It must have the assistance of all of you--the businessman, the labor leader, indeed you, all of us--the consumer. But private efforts are equally helpless without Governmental leadership and wise and determinative policies formulated and designed to stimulate production but hold down pressures on our market place. Today I will try to review for you what your Government is trying to do to correct inflation, since it is inflation which distorts our economy and brings on recession and unemployment. I will comment on some of the areas where you can be helpful, and some of the areas where it is going to be difficult for either one of us to make a meaningful contribution.

First, we must look at the causes of inflation. In my opinion, one of the fundamental problems in our nation has been a

long series of deficits in the Federal Government's budget. Certainly, this has contributed perhaps as much as any other single factor to the imbalances and instabilities in our current financial markets, to the higher cost of credit, and to the international monetary imbalances which have accumulated into devaluations of the dollar and the ultimate destruction of the Bretton Woods monetary mechanism. Such deficits are, to a large extent, a response of our legislators to the demands which we, as individuals and collectively as a nation, place upon the Federal Government to solve our problems, to protect the public good, and to accomplish these without additional taxes.

The increases in Government spending have heavily concentrated in the field of health, education, and welfare, reflecting our unwillingness to allow suffering of the poor and unemployed. Unfortunately, our generosity has dampened the will to return to work. We seem to be creating a whole generation of welfare recipients who both lack the desire to return to work and, given the level of welfare payments, may consider work a poor substitute for welfare. If our legislators are to resist the clamor for more welfare and curtail spending to the point where it is within Government's revenues, we must speak up with a loud voice and make it known that we want fewer Government services and a strong program of fiscal responsibility.

Congress is trying to get a handle on new spending and through the Budget Reform Act has now started to set goals for spending ceilings to ensure that the costs of individual pieces of legislation are aggregated into an expenditure total which can be controlled or at least used as a control feature by the Congress. While this may not seem to be a major step for budget control to most of you, it is truly a significant step for Congress and one which we should applaud and support our legislators. But Congress needs to do more to strengthen its resolve to hold fiscal activity to more balanced dimensions.

A second cause of our inflationary problem has been the cumulative international deficits which caused major dollar surpluses abroad and forced a reduction in the exchange value of the dollar and destroyed the international monetary mechanism. The dollar has strengthened over the past few months because of steadily declining situations in other countries while we have showed some improvement, but there is no presently visible reform for a new international monetary mechanism. This has forced nations to develop floating exchange rates which create a volatile uncertainty in the international markets. Government clearly has the responsibility to negotiate changes cooperatively with other leading nations to bring about a truly significant reform in the international exchange and mechanism arrangements. Unfortunately,

I cannot report any progress in this field to you today. It is my hope that Government will begin to develop plans for at least cooperative intervention in the exchange markets, steadily narrowing the field of volatility so that exchange rates come into a more stable environment. But such stability is almost impossible without closer controls over inflationary problems throughout the world.

A third area of recent inflationary pressure has stemmed from the results of pricing of Arab oil and agricultural grain crops. The United States is almost powerless to control Arab oil prices, unless means can be achieved by which energy independence is reached in this nation--either by developing alternate forms of energy or alternate sources of oil and gas. Independence by means of reduced consumption will mean a lower standard of living for most of us.

Similarly, in the agricultural area the United States has no control over the weather conditions which create crop failures and crop reductions as occurred in Russian wheat and grain crops this past year. But we think that more balanced, continuing purchases with stockpiling both in the United States and abroad might smooth out the demands for our agricultural products and reduce the erratic but intense price pressures which occur when crops are inadequate. Your Government is working toward such an agreement with the Russians and we hope that this agreement will provide an element of stability in this highly volatile area.

To a considerable extent, another cause of inflation is also a result of inflation. Wage increases beyond productivity levels can clearly cause a cost push type inflation which is difficult to control. Government has some responsibility to assure itself that monopolies do not develop and that competition rules both the labor and business marketplace. But business and Government are, to some extent, powerless to effectuate major reform to force competitive labor marketing and, to a considerable extent, lack the will to create such a competitive marketplace. The pendulum of market power has clearly swung from business to labor over the past half century and now needs to reverse itself part way toward a greater balance. In my opinion, the public interest should be represented at the bargaining table, but severe curtailment of union power is not in the public interest and we should be careful how and to what extent we interfere with the bargaining rights of labor and business.

Finally, it should be noted that inflation has also been accentuated by an excessive creation of money largely the result of the heavy deficits on the part of the Federal Government. Even discounting such deficits, however, it is rather clear that in a few instances over the past five years the nation's monetary authority has permitted the growth of credit beyond that needed for a balanced economic growth. There have been many reasons for this but the

substantial fact is that we need a better and more closely refined control over credit creation to avoid this sort of inflationary pressure. This job is clearly one of Government but it requires all elements of Government to resolve the problem. The Federal Reserve, as the nation's central bank, has the authority to create reserves for the banking system and thus enlarge the nation's money supply. But in curtailing the supply or limiting its development, the central bank at present is hampered by its lack of control over all elements of the financial markets. The Federal Reserve, for example, does not reach more than half of the nation's commercial banks in its direct monetary control. Neither does it reach any of the thrift institutions who in the past have been enlarging their scope of authority to enter banking type business. Until these various newly formed and newly enlarged financial institutions come under the scope of central bank reserve requirement authority, there will be an enlarging group of financial transactions taking place out from under the central bank's control. I am pleased to report to you that there are efforts under way, especially in the Senate, to redress this imbalance and improve the central bank's control over the nation's money supply.

In another broad area of inflationary pressure, that of inefficiencies in business and over-regulation by Government, there is a joint responsibility to achieve some progress. Certainly,

business has shown some tendency to spend beyond that necessary for production and marketing of their products. It is true that the tax laws of this country do permit a wide area of expense deductions, but business as a whole could do a better job of efficient control of expenses and enlarge its own return. The Government also has a responsibility in this field--to ensure that the regulation of business is pro-competitive and will yield a better production, marketing, and distribution system rather than hampering any of these elements.

Also to combat inflation, Government has a real responsibility to establish responsible tax policy. Unfortunately, over the past several years, tax policies have largely been aimed at stimulating the economy and thus reducing the available revenues for Government. At the same time, tax revenues and deductions have not been used as well as they might have been to achieve the investment encouragement for new plant and equipment and to hasten the development of more efficient capacity in our nation's industrial plant. While it is Congress' and Government's responsibility as a whole to establish the tax laws and tax policies in this nation, I believe there is a place for the private individual to make known his wishes to Congress to support a balanced program of tax priorities to ensure that this nation continues to progress in the field of technological advancement and in the placement of new and efficient equipment in our industries.

Finally, I believe that Government has the responsibility for establishing the priorities and the tone of the nation's economic stabilization efforts. For many years now we have operated under the Full Employment Act with pressure largely aimed toward keeping the wheels of industry moving fast enough to employ all those who wish to be employed. We have not succeeded in this latter endeavor, mainly because inflation has always accelerated when we reach toward full employment levels. More recently, with greater participation by women and teenagers in the labor force, the pressure for full employment has become almost intolerable. Government needs to re-appraise its priorities and we should redefine our full employment target or eliminate those who seek only part time employment and those who have in effect taken themselves out of the labor force.

While Government has these responsibilities to achieve some correction in the field of inflation, it is clearly the responsibility of business, labor, and you, the consumer, to reflect soberly upon the decisions you make as to whether they compound or help correct the problem of inflation. Your decisions to defer purchasing higher priced products will certainly dampen the ability of business to raise prices.

We consumers have the responsibility for careful shopping, reducing our spur-of-the-moment purchases, penalizing the producer who raises his prices above the competitive market level, and reducing our rewards to those who seek special profit by monopoly control.

Similarly, we need to think carefully about where we place our money, concentrating our efforts toward productive goods and services or savings and away from speculative endeavors. Beyond a doubt, we have overstretched our capacity and have encouraged speculative growth in this country, especially in real estate. We are continuing to reap the whirlwind of losses occasioned by that speculative wave which fostered the real estate investment trusts and encouraged them to invest so heavily in long-term developmental real estate, condominiums, and apartment houses.

We have the responsibility as wage earners to see that our wage rates are not unduly accelerated, bringing new cost pressures upon business and raising the justifiable price levels of the products we buy. It is a tail-chasing exercise to have wage rates advance sharply to offset a past inflation and, by those wage rates, engender a further inflation. Business and labor have real responsibilities to act as economic statesmen in this nation, to place the public interest in the circle with wages and profits, and to uphold the high standards of ethical leadership.

The bankers have a responsibility to aid and abet that economic statesmanship in the handling of the funds you and I place for their safekeeping. In fact all financial institutions have a responsibility to maintain a clear arms length dealing with all customers, to build and deserve the confidence of their customers, and to so conduct their affairs that disclosure will bring no discredit upon their personal or corporate reputations.

Economic stabilization is a job which requires the full-time attention of many and the part-time attention of all of us. We cannot expect our nation to resume its equilibrium growth, achieving lasting prosperity, if we continue to distort and abuse the freedoms which we enjoy. We need to make sure that our laws are kept up to date, and that our regulations catch and punish the offender, but do not inhibit free and vigorous competition.

We as a nation have come a long way under the free enterprise capitalistic system. We know of no other system which provides the fruits of a man's efforts so directly back to the worker. We know of no other system which provides comparable freedoms to its individual citizens. But we as a group need to pay more attention to the political and governmental side of life. Our recent experience has clearly taught us that government will not operate by itself and that government let alone may become a government unsatisfactory to most. Let us resolve in this upcoming bicentennial year that we will redevelop a political responsiveness.

I close with this message. Work, save, and spend wisely, and you will contribute to the demise of inflation in this nation, I hope you will look over our shoulders in Government as we try our best to develop politics designed to eliminate inflation and provide steadily higher real standards of living for all of us. Thank you.

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