

Remarks by  
John P. LaWare  
Member, Board of Governors of the  
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Good evening. It is always great to be back in Boston, and back at the Park Plaza. Just to give you an idea of how old and decrepit I am, I remember it well as the Statler. I used to stay here regularly in the late 50's when an inside room was \$12.50 per night and a sumptuous breakfast at the counter in the coffee shop was \$1.30. Incidentally, if you wanted to brave the weather you could dodge across the street to a Child's restaurant and get the very same breakfast for 90 cents.

How uncomplicated, straightforward, cheap and dull that world seems today by comparison. The prime rate was 4-1/2 percent or so, Treasury bills traded at a shade under 3 percent. Fed funds were a shade over 3 percent and the discount rate was 3 percent on the nose. The total federal budget was under \$100 billion. Growth wasn't very dynamic.

The United States was not only the unquestioned political leader of the free world but also the totally dominant economic force on the globe. Our technology, productivity, and business acumen were unchallenged. Eurodollars were a relatively new phenomenon and our payments disbalances were largely a reflection of the huge investment flows abroad to finance manufacturing facilities closer to our international markets. In that world of 1960 we were free to pursue our national goals without reference to others. The rest of the world had to figure out how to respond to us. By contrast, today we are but one of many political and economic forces to be reckoned with, and our political and economic policies must be developed in collaboration with our allies and trading partners. Europe, once in ruins, is soon to integrate itself into what is potentially the world's largest market, and its political and economic muscle makes it possible for it to dictate how others will participate in that market. Japan is like a tropical storm gathering force to become a hurricane. It is already creating big waves and its competitive impact has laid in ruins some of our most treasured industrial icons.

And yet the economy remains phenomenally resilient. We are in the eighth consecutive year of economic expansion and there do not seem to be any signs of recession in the year ahead. Nationally unemployment is at a low 5.3 percent, a level which by current standards might be regarded as full

employment. Inflation remains a worrisome factor. At 4-1/2 percent or so it is not catastrophic, but it is too high and our policy goal is to get it down. The trade balance, in spite of the August figures has improved although the strength of the dollar will slow further progress somewhat from the pace of 1988. The inability of the administration and the Congress to deal effectively with the budget deficit creates the spectacle of a nation irresolute in dealing with its internal problems.

So the picture is a mixed but generally pleasing one on the visible surface. But, I believe there are still some fragilities in the economy which require careful monitoring. We hope they will respond favorably to current therapies.

-- The S&L mess is being attacked vigorously and deliberate haste in resolving the brain-dead situations will help contain the overall eventual cost. But the method and pace of the disposition of the real estate assets assumed by the R.T.C. will undoubtedly have an unsettling effect on real estate markets generally.

-- Developing country debt is less of a threat to the banking system as reserving and capital additions have reduced the potential impact on the system of any general default. But as the banks have insulated themselves from

the cold, they have also paradoxically reduced their own incentives to finance those developing countries.

-- Takeovers and leveraged buy-outs are the creative lending opportunities of the 80's, with big fees for the banks, big yields for investors and new and bigger risks for both. The fragility here derives from the sensitivity of these transactions to aberrations in the stability of the economy that would undermine the borrower's ability to service the debt. I think recent developments have alerted the banks and the markets to these perils and the appropriate adjustments are under way.

These are all readily definable problems with fairly clear-cut remedies and favorable current development patterns. What really concerns me is a general malaise, sometimes belied by our prosperity. Some things closer to the core of our national existence that cry out for our attention.

One sorry spectacle is our rapidly decreasing competitiveness in the world economy. Our leadership in technology has eroded. Our leadership in productivity has evaporated. We depend on the rest of the world to finance our budget deficits. Our savings rate is less than one-third that of the Japanese. We seem to have lost the will to deal with our problems. We are unwilling to spend

less on government and government programs, but we are also unwilling to accept tax increases to pay for them. So at the federal level we must borrow from the Japanese or others to make up the difference. Elected officials are preoccupied with getting elected and re-elected, and the special interest groups who finance those elections are able to override sound public policy in exchange for their support. The news is full of appropriate examples every day.

On a national scale my generation has been too passive on public policy issues. Nationally we have been reluctant to sully ourselves by mixing it up with politicians. We have been preoccupied with making money and spending it conspicuously. In fact, we have been so focussed on material success that the end has begun to justify any means to gain it. And our amorality has spilled over into the political process to the extent that decisions by elected officials on public policy issues are often made in consideration of campaign contributions rather than the public interest. When a campaign for a Senate seat can cost several million dollars and a House race may cost many hundreds of thousands, it is not hard to understand the weight those contributions carry. The result is that public regard for Congress, state legislatures and politicians in general is at a low point, in some cases bordering on contempt.

The old remedies have not worked. For much of this century our big problems, whether social or economic, were routinely dealt with by more government intervention and more spending. The result is government so bloated at federal, state and local levels that much of the spending is simply to support the apparatus set up to administer it, and less and less gets directly to the problem being attacked.

The so-called "drug wars" are one example. Public housing is another. Dozens of public housing projects bravely thrown up as recently as 20 or 30 years ago have been abandoned or bulldozed. They were so institutional in design that no one could feel at home in them and the hopelessness of the inhabitants assured their decline. And yet, with all of that, we have people living on the streets.

And where are we as a country in the global economy? Still at the top, but the trend lines aren't up. The thirst for short-term financial gain has dampened our willingness to invest for increased productivity to assure future growth and competitiveness. We are so absorbed in the opportunity for windfall profits in takeovers and leveraged buy-outs financed with junk bonds that we have lost sight of the fact that these transactions regularly extinguish corporate equity and require the dismemberment of vital enterprises in order to meet debt service requirements.

The old ways are not working to solve the problems we face. They may, in fact, be making them worse. We need new approaches, renewed creativity and a powerful commitment on the part of business to become involved. Business persons cannot afford to be couch potatoes on public issues. Vote, write, talk, shout if necessary, but make yourselves heard. Create new approaches and demand that they be tried. It will take courage, because change is always traumatic.

For example: Could we improve the composition of our legislatures and other elected institutions if we put statutory limits on the length of election campaigns for all offices, limited the amount to be spent on a campaign and financed it all out of public funds at a fraction of current costs? Wouldn't that go a long way toward disarming the special interests?

And, given some thought to our housing problem. If public housing is badly designed and has a life expectancy of a fraction of private housing, should we be devising ways to incent private capital to build affordable housing -- perhaps through subsidies or tax advantages that would be much less costly than today's failed programs?

Now is clearly the time for a renewal nationwide of what I call "the Boston Spirit." During my time here I often remarked that I had never seen a city or a state where

there is as much involvement of private individuals in working out the knotty problems which affect the public welfare. That spirit has served this commonwealth with distinction in the past and I trust it will contribute to a satisfactory solution to the grave situation in which you find yourselves today.

A regrettable phenomenon of government today at all levels, except the New England town meeting, is the increasing isolation of those who govern from those who are governed. The most splendid isolation of all is that of the President, but today even the mayors of mid-sized cities are hard to reach. And in most other places institutions like the Vault, Jobs for Massachusetts and this wonderful organization don't exist to bridge the gap. In times of crisis the energy and intellect of the best private minds need to be recruited and applied to public policy issues. You have a great advantage here in Massachusetts in dealing with your present crisis, because the private institutions already exist through which you can mobilize your forces. Business participation in the public policy process is already organized; it only has to apply itself as needed.

We are sadly lacking at the national level in similar institutions or, it sometimes appears, the will to help.

The brief ten years I spent in Boston were the most important and happiest of my life. The institutions I mentioned before and countless others at work all around us taught me the lesson that business cannot afford to be a passive critic, sour and withdrawn from the public policy process. Rather it must be a concerned and energetic participant in that process whether it identifies with the ruling party and its leaders or not. The partnerships between business and government that exist in this commonwealth should support and strengthen both partners in times of trial. I am confident that that will be as true in the future as it has been in the past.

You have done me great honor by inviting me to be with you tonight. I can assure you that although my mind is employed in Baghdad on the Potomac, my heart will always be here with you.