

EXCERPTS FROM REMARKS

by

Henry C. Wallich

Member, Board of Governors of the Federal Reserve System

at the

Yale Club of Washington, D.C. Luncheon

Washington, D.C.

Tuesday, November 26, 1974

After having been away from Yale for half a year, there is one thing I have learned: how a university can solve its problems. Enough confidence and ignorance, it has been said, will assure success. I have just had enough time to become sufficiently ignorant about Yale's problems to allow myself to believe all the university's problems could be solved if it would only apply a few simple and unworkable remedies. Meanwhile the problems of government, which look so simple in a university, have been taking on rather more formidable dimensions as I have come closer to them.

The main conclusions at which I arrive are these:

(1) The economy has received a serious shock from the great increase in the price of oil. The resulting problems are manageable for the U.S. They will be manageable also for other countries if the financing can be arranged. This is a major if, however, because it is not certain that all countries can or will take the measures that will be required to put adequate financing within their reach.

(2) On the domestic side, the U.S. will have to go through a transformation in the structure of its energy supplies. This will be a costly process, and cannot be accomplished very rapidly. It will involve strong efforts at conservation of energy besides the creation of substitute sources. If we handle this transformation well, it might open the door to a more rapid rate of growth eventually, because we shall have an

opportunity to finance larger investments if we will seize it.

(3) The economy stands in need of greater investment not only in the energy sector, but generally. Serious capacity bottlenecks have emerged and need to be dealt with. Environmental investment needs are large. All this calls for a mounting volume of capital to be employed in the American economy. Much the best way of overcoming our present slack would be to stimulate the broad range of productive investment that is required.

(4) We need to give greater attention to our productive system. During the time when I was at Yale, people's views, and particularly those of students, changed sharply with respect to the economy. From an admirable and admired mechanism it gradually seemed to change into a humble beast of burden which then we began to overload mercilessly. Fewer and fewer people saw any need to tend the beast. Now a due bill for this neglect is coming in, in the form of serious inflation. The need to overcome this inflation and prevent it from destroying the structure of our economy is paramount and it unfortunately puts a limit on the degree of expansion that we can sustain. We will have a better economy, and more and better jobs for all, including Yale ^{persons} ~~men~~ in Washington, if we take this lesson to heart and determine hereafter to treat the economy as something worth ^tending and worth preserving.