HIGHER EDUCATION AND THE ECONOMY

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by

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Being with you today and discussing higher education and the economy is indeed a pleasure. My awareness of each comes from two perspectives: As an alumnus of the University of Georgia and fund-raiser supporting Georgia and Georgia Tech, I have first-hand knowledge of higher education and its financial needs; and as President of the Federal Reserve Bank of Atlanta I head an institution employing college-educated talent and participating in this country's monetary policy formulation.

Let's discuss higher education and its relation to the economy. Higher education graduates individuals whose skills and training business and government depend on. As employers, we need well-trained personnel and individuals who can learn their duties quickly. In addition to training in their fields, we need employees who can adapt their knowledge and develop new knowledge to the changing problems of industry and society. To be effective, the employee must bring to the job talents beyond technical job capability--abilities to communicate and plan, to interact with other people, to finish projects, to develop subordinates, leadership, and judgment--to name a few. We depend on the colleges and universities for developing these talents in students. We need the colleges just as much, if not more, than the colleges need us. Their success, in turn, inspires us to support higher education. It is my hope that we can meet their challenge.

I have tried to show how dependent employers are on colleges and how, in terms of financial support, the influence also works the other way. Without help from corporations and alumni, this university, for example, could not survive; and its faculty, many represented in this room, would be elsewhere.

There is a further link between higher education and the economy that I think deserves special attention. Closely related to my perspective of economic policy-making, it falls into three areas: capital investment, energy, and inflation.

Capital investment, as I see it, involves expenditures for new equipment or facilities, expenditures for replacement purposes, or expenditures required by law. Here, for example, I am thinking of ramps the universities must put in for the handicapped and of pollution controls imposed on business. While many such investments, whether by business or college, may be desirable or socially useful, they do not increase productivity. They represent, on the contrary, an extra cost and have been rightfully charged with much blame for the lagging productivity growth in the economy.

Another noteworthy thing about recent capital investment trends has been the slow pace at which business has increased its productive capacity. The bulk of capital spending by industry today is going for equipment rather than new facilities. One reason few new plants are being built is that the risks and uncertainties are too great, in relation to the expected return, of many such investments. Further consider, what with environmental and other regulatory requirements, the time it takes to finish certain facilities today. This distresses me. We need modern plants turning out products at lower costs. That is a good way by which we can compete with imports. These plants may be devoted to new products or may be extensions to existing capacity. Without new productive capacity, shortages will probably develop in manufacturing segments before too long, and production costs and prices will accelerate in response to these shortages. I'll return to this subject in my concern with inflation.

Now, let us consider energy. The university's concerns with energy are no less real than the nation's. A university president told me recently that a tightening in his school's fuel bill has torpedoed his budget. He was worried that his trustees would not make allowance for these extra costs, in which case he'd have to take the money from proposed salary increases and scholarship funds. He is rightly concerned, just as we should be concerned about energy and its relation to the health of the U. S. economy. The energy bill the President submitted to the Congress over a year ago is still being debated. It is controversial. It is not perfect. But, let me tell you: This country needs an energy policy badly, and very soon. It cannot do without one for much longer. Some businessmen, understandably, have held back on capital spending plans until they can anticipate energy supplies and costs. That is most unfortunate.

Society, meanwhile, wrestles with huge balance of payments deficits, which are accentuated by oil importation. We imported in first quarter '78 8.2 million barrels of oil a day, amounting to $10 billion. We wouldn't have a payments deficit today if we didn't import oil.

But, of all the problems that education and business share, inflation is the most serious. As I look over the rest of this year and into the next, I see many elements pushing up prices and wages; I see very few holding them down.

First and foremost, the substantial progress we have made on unemployment and economic growth is bringing us closer to bottlenecks in skilled labor and plant and equipment--close to the time of spiraling prices accompanying shortages. The disappointing rate of business capital investment will hasten that reckoning.

Second, the recent depreciation of the dollar internationally cannot help but add to inflation--by one-half to one percent, the experts tell us. We are just beginning to see these effects on our imports--the Toyotas and their domestically-produced substitutes, the Fords.

Third, it is quite clear we have not adjusted yet to what energy will cost in the future. When we do, some prices will go up as our producers and consumers react by changing what they sell and what they buy. This kind of churning, history tells us, is inevitably inflationary.

Fourth, we have to reckon with the Federal budget stimulus and with whatever additional tax cuts will emerge in this, an election year.

Finally, I am troubled by the "I'm gonna get mine first" way of thinking which, as always, accompanies widespread expectations of inflation. Next year brings a heavy collective bargaining calendar, with more pressure on labor costs in prospect. Businessmen are looking for ways to protect their profit margins. Farmers need help. Everyone, it seems, is looking for Federal money as an equalizer. This is the psychology inflation breeds, and I am troubled to see it building up again.

I hope I am wrong. Weak economic growth around the world is restraining international commodity prices, and that may offer a welcome, if temporary, respite. Maybe the Administration will pull a rabbit out of the hat and implement a workable and effective anti-inflation policy, but I cannot avoid being skeptical. I am pleased, however, to see that the Administration has joined our Chairman, Mr. Miller, in declaring that inflation is our top-priority economic problem.

One special note. It is sometimes fashionable to say that wealthier people with jobs are always more concerned about inflation. That argument does not mean much to me for two reasons. First, our recent inflation has clearly hit poorer people much harder than the general population because our worst inflation has been right where lower-income people spend most of their money: health care, housing, transportation, and food.

Secondly, our postwar experience tells us, equally clearly, that the only way to get unemployment down and keep it down is to avoid recessions. Accelerating inflation is the surest road I know back to a recession and rising unemployment. So we <u>all</u> should be concerned about inflation, and that is the primary message of what I have to say.

Dealing with growing inflationary pressures isn't easy. Monetary restraint, for example, can reduce inflation but only at the expense of a slower economic growth. And if monetary restraint is imposed too harshly, it could lead to recession. Wage and price controls, another alternative, suppress inflation only temporarily. Appeals for voluntary wage and price restraints have been ineffective in the past. Fiscal restraint will work. But cutting Federal spending is difficult politically. Fostering competition and reducing government regulation are useful but easier said than done.

Each of us in this room could probably come up with a different policy favorite for fighting inflation. Personally, I think no anti-inflation program will be effective unless it includes: first, a firm ceiling on government spending; second, tax reform to encourage capital investment; third, legislative modifications in minimum wage and Social Security tax increases that increase costs without a matching increase in output; fourth, restraint by labor, business, the professions, and all segments of the economy in pushing for higher wages and prices; and, fifth, a monetary policy that would hold money supply growth to 6 percent annually, or less than that.

I cannot promise you that this program would be capable of eradicating inflation completely or even stop it. But an effective program to fight inflation is required for this university, its faculty, students, and alumni to prosper.