

Statement of

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I think it might be most appropriate for me to focus my remarks at this meeting on the prospects and problems of the U.S. economy in the longer term--more specifically, the period through 1980. In so doing, I will be speaking only for myself and not for the Federal Reserve System.

To begin on the bright side of things, the next five years offer the potential for great economic growth. The real growth record of the last half of the 70's should excel the growth rate achieved in the United States during the first half of the 60's. This growth potential reflects, of course, the extraordinary amount of slack now in the system. With the economy clearly in an expansion phase and with several years of difficult adjustments behind us, we should again see a prolonged period of strong productivity gains. Even with reasonably conservative assumptions, we have the capacity to average in the neighborhood of 5-1/2% real growth during the 1976 to 1980 period.

This growth in the economic pie, particularly if it can be accompanied by a declining rate of inflation, can do much to reduce the social divisiveness which our economic performance of the past few years has produced. Americans of my generation came to look

upon it almost as a law of nature that their real incomes would rise year by year. The past 2-1/2 years, when real incomes for the typical American family steadily declined, have been more traumatic than would have been the case in the absence of the rising expectations which the preceding three decades of our economic history generated.

Of course, any comparisons to the early 60's in terms of potential for real economic growth must reckon with the fact that we began the 60's with a stable price environment, while we began the last half of the 70's with an inflation rate in the neighborhood of 7%.

This combination of conditions--very great slack to be taken up plus an inflation rate which is very high by any historical standards--has produced a greater split on policy prescriptions among economists than I can ever remember. On current monetary policy the prescriptions for M_1 for the year ahead from prominent economists range from 5% to 16%--an extraordinary range indeed. In part, these broad differences reflect differing value judgments; but in part they also reflect differences in appraisal as to the response of the economy to monetary stimuli in this unprecedented context.

Fundamentally the dispute is whether we should follow a policy designed to return the economy quickly to full employment within a short period (say, two years) or whether the long-run interests of the American people can best be served by policy designed to approach full employment more gradually, the virtues of the more gradual path on the part of its advocates being that this path will be more compatible with a steady decline in the inflation rate and, therefore, more compatible with sustained economic growth.