

The U. S. Economy: Assessment of Government Economic  
Policies--Domestic and International--and the Likely  
Issues for 1973

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before the  
Midwest-Japan Association Meeting  
November 1972

I am honored and pleased to have this opportunity to visit your country. Like so many other Americans, I have been impressed with the tremendous economic progress you have made and have looked forward for some time to seeing, first hand, your industrial facilities and the basis for your remarkable productivity growth.

I have watched too with great interest the realignment and modification of Japan's economic goals. The report published some year and a half ago by the Industrial Structure Council and since articulated so well by your country's spokesmen such as Mr. Naohiro Amaya, is a significant indication of the maturity and strength of the Japanese economy. You are to be commended for moving from expanded production and exports as ends in themselves to the broader view of economic growth as contributing to satisfying the needs and well-being of your fellow countrymen to a higher degree. And I am indeed impressed with your conclusion that it will be possible to maintain a 10 percent national growth rate while allocating the necessary portion of your gross national production to this goal.

The Current U. S. Economic Situation

As you are all aware, that kind of growth rate seems to be beyond our reach in the United States. Nevertheless, the recent

economic news coming from my country is quite favorable. As expected, we were not able to continue that almost 9 1/2 percent second quarter rate of growth of real output in the third quarter. But I see no reason for being disheartened. 1972 will be our best year of real economic growth since 1966.

The success of our domestic economic program of the past year is written clearly in the whole spectrum of economic data which has become available since August of 1971. The pattern which emerges is clearly one of sustained economic growth, accompanied by the gradual dissipation of inflationary pressures.

Housing and autos have shown the most dramatic impact of the New Economic Program, but the acceleration in business activity and slowdown in inflation have spread pervasively through virtually all areas of the economy.

I look at the current business situation with considerable satisfaction. The unemployment rate reported for each of the last three months has been well below the 6 percent plateau which persisted so long. Retail sales figures and extensions of consumer credit show a continuing willingness of the consumer to buy more freely than he did a year ago, and we continue to build more than 2 million housing units each year. New orders for durable goods are now almost 25 percent above the level of the second quarter of 1971 and backlogs on durable goods production have risen about 8 1/2 percent as shipments have fallen behind the pace of orders.

The reports coming to me from firms in our industrial heartland of America indicate that we are in the midst of a strong economic upturn which has sufficient momentum to continue at least well into

1973. So like many of my countrymen, I am confident that 1972 will go down as an excellent year and have no doubt that 1973 will follow a strong pattern of economic growth.

Even though our policies have been reasonably successful to date, development of appropriate policies for the future still faces significant challenges. Three major economic policy areas seem to me to be the most important as we strive to set our course for the remainder of the 1970's--economic stabilization and sound growth, fiscal accountability, and rectification of the U. S. balance-of-payments position.

I would like to cover these areas very briefly today to give you some idea of my thinking and the basic assumptions which underlie my views on economic progress in 1973 and beyond.

#### The Stabilization Issue

The most difficult problems confronting the U. S. economy still revolve around the problem of maintaining economic stability consistent with sound economic growth. In spite of the long number of years during which stabilization policies have been discussed, devised and implemented, the difficulty still remains. Why? It is not because we lack the economic knowledge to maintain stability (although our knowledge is far from perfect) but because of the difficulties involved in harmonizing the four stated goals of public policy--"full" employment, stable prices, economic growth, and international balance-of-payments equilibrium. In a world which seldom exhibits the "long-run properties" of the economist's model, conflicts often arise among these goals.

There is a fundamental need for us to reappraise the relative strength of these goals. It seems to be that we need a more careful

scrutiny of the benefits of achieving one or more of these goals in relation to the costs imposed by neglecting others. For example, faced with rising prices and a deterioration in our balance of payments, we should look carefully at the relative costs and benefits of opting to try to solve these two problems by choosing to force adverse conditions for employment and growth. Undoubtedly, we will disagree in our analysis of the benefits of price stability and balance-of-payments equilibrium relative to the costs of unemployment and the loss of economic growth. But let us be clear that the argument, the issue, the difficulties are not stabilization itself but our differing views of these benefits and costs. Let us strive to reach and debate our public policy position with a clear understanding that this is where the issue lies--not in devices or programs.

This is not to argue that I would not classify inflation as a serious problem. Excessive price inflation, associated with attempts to maximize output, is a common modern disease, prevalent in all industrialized nations. The necessity of charting a middle course--a generally acceptable balance--between the objectives of full employment and maximum growth on one hand the containment of price inflation on the other is clear to all of us. But we are again faced with a management problem of evaluating clearly the costs as well as the benefits of our policy choices.

The decision to move toward price and wage controls temporarily in the U. S. was, I feel, made correctly with this cost-benefit analysis in mind. The price and wage freeze of August 1971 and the controls program initiated in November 1971 have worked more successfully than most of us had expected. For many industries controls in

1971 and 1972 have had the effect of bringing decisions on prices and wage changes in line with the performance that would be expected of competitive markets. In part, controls have worked well because they were instituted at a time when resources of manpower, materials, and facilities were underutilized. These margins of unused resources are gradually narrowing, however, and controls will be subjected to a more severe test in the coming months. Already there are complaints of distortions in the supplies of such items as oil, lumber, and automobiles.

The U. S. control apparatus is administered by an extremely small staff. Cooperation of the public has been absolutely essential to the success of the program. The critical question now is how well will this structure operate under conditions of relatively full employment?

I have, of course, no inside knowledge on the future of our controls program. From all indications, however, it appears likely to me that controls will be continued, perhaps with their scope and specificity decreased. A "key" industry or sector approach may well be taken with less emphasis on case-by-case decisions. Nevertheless, all responsible Americans hope to see the harness of controls unhitched as soon as possible. We do not think our system can operate efficiently in the long run unless greater freedom is restored to the marketplace. And "freedom" implies an absence of monopolistic elements as well as an absence of controls.

#### Fiscal Accountability

Economic management policies involving the weighing of benefits and costs are equally as important in our allocation of output to

public and private uses as they are in goal setting. The future allocative role assigned to the national budget is particularly critical.

From an economic standpoint it is not so much the absolute or relative (to GNP) size of the Federal budget that is of my direct concern here today. Rather, it is the way in which expenditures are decided upon and financed. I am concerned that we have developed a strong tendency to expand Federal spending without providing the taxes to finance that spending. Furthermore, we have developed programs which increasingly incorporate automatic, usually accelerating, spending patterns in future years, so that a larger and larger share of Federal expenditure is predetermined, out of the direct control of either the Congress or the Executive.

Ideally, Congress should make an implicit or explicit cost-benefit analysis of all proposed and existing expenditures and programs. If the assessments were correct, the question of the relative or absolute size of government expenditures would be one of the factors taken into account in the calculations.

Without minimizing the difficulty of accomplishing such a task, even more than that is needed. Without some means of providing an overall review of Congressional authorizations, no such implicit or explicit cost-benefit analysis is possible in practice. So long as Congressional committees operate <sup>as</sup> ~~with essential~~ independence, <sup>as they do,</sup> ~~concern-~~ing themselves <sup>so largely</sup> ~~only~~ with <sup>narrow</sup> ~~their own~~ areas of responsibility, the appropriations procedure is unlikely to be very efficient when viewed in the aggregate.

If the Congress always voted financing measures to cover spending from all of the appropriations passed, it would appear more

likely that closer feedback between Congressional procedures and "the people" would exist. This, of course, is not the case. Public pressures are increasing for programs to provide mass transportation, education, health protection, housing and municipal services at an expanded pace. Meanwhile, our country continues to provide for the bulk of the military preparedness required to maintain the integrity of the free world. Unfortunately, tax revenues have not been provided in sufficient volume to pay for expanding government outlays. Large deficits, especially at the Federal level, are being recorded at a time when the nation is generally prosperous. Such deficits, if not reduced, will play a prominent role in rekindling inflationary pressures.

#### U. S. Balance of Payments

The paramount issue in U. S. international economic relations is correction of our international balance-of-payments position. This is not merely a national issue. It is an issue on which depends, to a large extent, the smooth functioning of the international monetary system in the future. The dollar is still a focal point in that system.

Achievement of a better balance in our trade accounts is an integral part of that issue. We are not "mercantilists"; we are not merely seeking a surplus in our trade account as a means to increasing our international reserves. Rather, we view a better balance in our trade account as a means of enabling us to maintain our role as a supplier of investment and economic aid capital, as a means of maintaining our military commitments toward assuring world peace--

all within a framework of balanced international accounts that would aid the effective functioning of the international monetary system.

We strive for achievement of other goals within an environment as free as practicable from restrictions on productive capital and trade movements. This is because we continue to believe that the realization of mankind's ambitions for economic security and well-being can best be achieved in such an environment.

Clearly, achievement of all other goals in the international area will require sincere efforts on our part. It will also require cooperation--at the government, business, and individual level--in all countries that share with us the hope for a better world. I share the hope of our government that the forthcoming negotiations for the reform and restructuring of the international monetary system will provide a forum for such cooperation.

#### Conclusion

These three areas--stable economic growth, fiscal accountability, and the U. S. balance-of-payments position--are obviously only a part of the economic issue calendar that exists for the United States. Some would undoubtedly argue that my more or less traditional selection of issues is wide of the mark and that questions of pollution control, opportunities for minorities, urban redevelopment, health, and education--the quality of life issues--are much more important.

I do not downgrade these as being substantial issues. Nor do I deny their present and likely future influence on our economic policies. We have accepted, as you have, the concept that our economy should contribute at its optimum rate to satisfying the fundamental needs and the well-being of our people. But I submit that the decision



process in the quality of life area is not and cannot be divorced from the traditional view of an economic system allocating scarce resources among insatiable wants. The management process is still the same. We must constantly and critically review our priorities and the attendant costs and benefits. I am hopeful and confident that we can and will do a better job on this task in the years ahead.