

REMARKS OF MR. ROBERT P. MAYO
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TO THE SEMINAR ON MONETARY AND FISCAL POLICY
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COORDINATION OF MONETARY AND FISCAL POLICY

I AM PLEASED TO HAVE BEEN INVITED TO MEET WITH YOU TODAY. DEWEY HAS SET UP A VERY IMPRESSIVE SEMINAR -- IMPRESSIVE BECAUSE OF HIS USE OF LECTURERS WHO HAVE BEEN OR ARE ACTIVELY INVOLVED IN THE FORMULATION OR IMPLEMENTATION OF ECONOMIC POLICY. THIS IS THE TYPE OF EXPERIENCE WHICH IS TAPPED RARELY IN MOST GRADUATE PROGRAMS. MUCH CAN AND MUST BE GAINED FROM THE STUDY OF THEORETICAL STRUCTURES, BUT IT IS IMPORTANT THAT THE THEORY CONFRONT PRACTICE ON FREQUENT OCCASION IF THE GAP BETWEEN THE TWO IS TO BE CLOSED. WITHOUT COMMUNICATION NEITHER THE THEORETICAL STRUCTURES NOR THE POLICIES WILL BE IMPROVED AND ONE SIDE WILL CONTINUE TO BE ACCUSED OF INTELLECTUAL ISOLATION AND THE OTHER ACCUSED OF INTELLECTUAL SUFFOCATION.

Change (DEWEY GAVE ME CARTE BLANCHE ON TOPICS BUT HE DID HINT THAT A FEW REMARKS ON THE COORDINATION OF FISCAL AND MONETARY POLICY MIGHT BE IN LINE WITH HIS OBJECTIVES. BESIDES, SINCE I HAVE BEEN FORTUNATE IN BEING ABLE TO VIEW ECONOMIC POLICIES FROM A NUMBER OF VANTAGE POINTS, IT IS A VERY COMFORTABLE TOPIC FOR ME.

to ^A AS EVERYONE IS AWARE, THE TOPIC OF ECONOMIC POLICY COORDINATION HAS BEEN UNDER ALMOST CONSTANT DISCUSSION FOR MANY YEARS. THE MOST RECENT VARIANT IS THE DEBATE BEING CARRIED ON IN THE MEDIA AS TO WHETHER OR NOT THERE WILL BE A CONFLICT BETWEEN MONETARY POLICY AND FISCAL POLICY IN THE PERIOD AHEAD IF MONETARY POLICY ATTEMPTS TO RESTRAIN INFLATION AND FISCAL POLICY ATTEMPTS TO STIMULATE OUTPUT AND EMPLOYMENT. THIS LATEST EXAMPLE OF MEDIA

GENERATION OF CONTROVERSY -- LET'S YOU AND HIM FIGHT -- BECOMES MORE EXCITING WHEN THE PRINCIPAL STARS ARE A NEW PRESIDENT AND A FEDERAL RESERVE BOARD CHAIRMAN WHOSE TERM AS CHAIRMAN EXPIRES NEXT JANUARY.

I KNOW VERY WELL THAT MANY CONSIDER COORDINATION OF MONETARY AND FISCAL POLICY TO BE A MAJOR ISSUE. BUT MY THEME TODAY IS A SIMPLE ONE: COORDINATION IS NOT THE REAL ISSUE. THE REAL AND ASSUMED ECONOMIC DIFFICULTIES IN OUR SOCIETY ARISE NOT FROM INADEQUATE ECONOMIC POLICY COORDINATION BUT FROM SINCERE BUT DIFFERENT PERCEPTIONS OF FEASIBLE SETS OF ECONOMIC GOALS.

I WOULD LIKE TO DEVELOP THIS THOUGHT BY POSING THREE QUESTIONS.

WHY DO WE NEED TO COORDINATE ECONOMIC POLICIES? HOW HAVE WE COORDINATED ECONOMIC POLICIES? DOES ECONOMIC POLICY COORDINATION NEED TO BE IMPROVED? WHY COORDINATE ECONOMIC POLICIES?

THE ANSWER TO THE FIRST QUESTION, WHY COORDINATE MONETARY AND FISCAL POLICY SEEMS OBVIOUS -- TO ACHIEVE YOUR ECONOMIC GOALS IN THE MOST EFFICIENT MANNER. YET, THERE IS A VERY VOCAL MINORITY THAT ARGUES THAT YOU DON'T NEED TO COORDINATE MONETARY AND FISCAL POLICY. ALL YOU NEED TO DO IS TO MAINTAIN A CONSTANT MONEY SUPPLY GROWTH, IGNORING FISCAL POLICY, AND -- FOR THAT MATTER -- INTERNATIONAL CAPITAL FLOWS AND VIRTUALLY EVERYTHING ELSE. A SIMILAR BUT LESS EXTREME VIEW IS THAT THE FED IS THE KEY TO WHAT HAPPENS TO THE LEVEL OF BUSINESS AND EMPLOYMENT, RATHER THAN TAXING AND SPENDING POLICIES. THIS LINE STATES THAT THE FED CAN SUPPORT, SUPPLEMENT, OR OFFSET THE EFFECTS OF FISCAL POLICY -- A TREMENDOUS POWER.

AS YOU ALL KNOW, THE FIRST OR EXTREME VIEW PRESUMES THAT ACTIVE POLICY EFFORTS TO INFLUENCE INTEREST RATES OR TO VARY MONEY STOCK GROWTH ARE MORE LIKELY TO BE DESTABILIZING, EXACERBATING RATHER THAN MODERATING CHANGES IN THE LEVELS OF ACTIVITY. WITHOUT SUCH MONETARY SHOCKS, THE ECONOMY WOULD

ADJUST TO REAL IMPACTS. BUT, AND THIS IS A POINT TOO FREQUENTLY IGNORED, THE ECONOMY WOULD NOT NECESSARILY STABILIZE AT THE LEVEL OF OUTPUT AND EMPLOYMENT DESIRED BY THE SOCIETY. IN OTHER WORDS, YOU DON'T NECESSARILY END UP AT "FULL" EMPLOYMENT. CONSEQUENTLY, WHILE THE THEORETICAL APPEAL OF THE ARGUMENT MAY BE GREAT, THE WORLD IN WHICH WE LIVE IS COMPLETELY UNWILLING TO ACCEPT THE RESULT.

THE LESS SEVERE VIEW DOESN'T IGNORE FISCAL POLICY BUT ALSO REJECTS THE NEED FOR COORDINATION BECAUSE IT SAYS THAT THE FED SIMPLY OFFSETS, ACCOMMODATES, OR SUPPLEMENTS FISCAL POLICY. I MUST REJECT THIS VIEW TOO, SINCE IT PRESUMES A FAR MORE POWERFUL ROLE FOR MONETARY POLICY THAN I THINK IT HAS. EVEN IF THAT DOMINANT ROLE EXISTED, I HAVE SERIOUS DOUBTS ABOUT OUR ABILITY TO TUNE POLICY IN THE PRECISE MANNER REQUIRED TO NEUTRALIZE FISCAL ACTIONS WITHOUT GENERATING OTHER UNINTENDED SERIOUS DISTURBANCES IN THE ECONOMY. EVEN MORE IMPORTANTLY, THAT APPROACH IS INCONSISTENT WITH THE DEMOCRATIC PROCESS. IN THE FINAL ANALYSIS, THE FED MUST CONFORM TO THE GOALS OF THE SOCIETY. IT CANNOT ARGUE THAT IT "KNOWS BETTER" WHAT THE SOCIETY WANTS THAN THE ELECTED GOVERNMENT OR THAT IT "KNOWS" WHAT IS BEST FOR SOCIETY. SUCH INTELLECTUAL SNOBBERY WOULD DOOM THE FED TO EARLY DESTRUCTION.

THERE HAVE ALSO BEEN ARGUMENTS THAT IMPLICITLY DENY THE NEED FOR COORDINATION ON THE GROUNDS THAT MONETARY POLICY IS IMPOTENT AND THAT ONLY FISCAL POLICY MATTERS. THAT WAS THE TREASURY'S POSITION WHEN I JOINED ITS RANKS IN 1941. THIS POSITION HAD FAR MORE SUPPORTERS SEVERAL DECADES AGO WHEN IT WAS ASSUMED THAT MONEY DIDN'T MATTER -- IT WAS ONLY A VEIL. MONETARY POLICY WAS CONSIDERED ONLY AN INEFFECTUAL APPENDAGE, A POINT OF VIEW WHICH WAS BASICALLY DESTROYED BY THE TREASURY - FEDERAL RESERVE ACCORD IN THE SPRING OF 1951. BUT CERTAINLY THIS POSITION MUST ALSO BE REJECTED.

IT IS NOW GENERALLY ACCEPTED THAT MONETARY POLICY DOES MATTER SINCE IT CAN HAVE IMPACTS ON BOTH OUTPUT AND PRICES.

IT SEEMS OBVIOUS THEN THAT IF BOTH MONETARY AND FISCAL POLICIES HAVE IMPACTS ON THE ECONOMY AND SINCE THE IMPACTS OF THE TWO DIFFER IN TYPE AND TIMING THAT SOME ELEMENT OF COORDINATION MUST BE NECESSARY. BUT WHAT IS THE NATURE OF THE COORDINATION REQUIRED?

CERTAINLY, THE POLICIES SHOULD BE COORDINATED IN THE SENSE OF HAVING THE SAME GOALS. IN OUR SOCIETY HAVING THE SAME GOALS MEANS HAVING THE SAME ECONOMIC STABILIZATION GOALS -- WITH REGARD TO EMPLOYMENT, PRICES, GROWTH. WHILE IT WAS RECOGNIZED LONG AGO THAT GOVERNMENT ACTION THROUGH IMPLEMENTATION OF MONETARY AND FISCAL POLICIES PLAYED A MAJOR ROLE IN THE HEALTH OF THE NATION'S ECONOMY, THE OFFICIAL RECOGNITION OF THE GOVERNMENT'S FUNCTION IN THE ECONOMY'S MAXIMIZATION OF EMPLOYMENT, PRODUCTION, AND PURCHASING POWER CAME IN THE EMPLOYMENT ACT OF 1946. THESE OBJECTIVES HAVE CLEARLY BEEN THE PRIMARY MOTIVATION BEHIND BOTH MONETARY AND FISCAL POLICY EVER SINCE.

THERE ARE, OF COURSE, MANY OTHER ECONOMIC OBJECTIVES IN TERMS OF THE ALLOCATION OF RESOURCES FOR DEFENSE, HEALTH, SOCIAL WELFARE, EDUCATION, PUBLIC WORKS, ENERGY, ETC. THESE CANNOT BE PURSUED DIRECTLY BY MONETARY POLICY, BUT WITHIN A BROADER CONTEXT OF FISCAL POLICY, THESE OBJECTIVES REQUIRE COORDINATION WITH THE STABILIZATION GOALS. OBVIOUSLY, ATTEMPTS TO ATTAIN SOME OF THESE GOALS CAN AND HAVE HAD AN ADVERSE IMPACT ON MEETING THE PRINCIPAL ECONOMIC STABILIZATION OBJECTIVES. BUT THIS CONCEPTION OF COORDINATION OF ALLOCATIVE AND STABILIZATION GOALS WITHIN THE FISCAL POLICY FRAMEWORK HAS A SLIGHTLY DIFFERENT CONNOTATION TO IT THAN THE USUAL COORDINATION ISSUE AND I WOULD LIKE TO LEAVE IT ASIDE FOR THE MOMENT. IT IS INDEED THE ESSENCE OF THE BUDGET-MAKING PROCESS, ALTHOUGH SOME DREAM OF

INTRODUCING IT DIRECTLY INTO MONETARY POLICY THROUGH CREDIT ALLOCATIONS BY THE FEDERAL RESERVE.

IN THE BROADEST SENSE, COORDINATION MEANS NOTHING MORE THAN HAVING THE SAME GOALS FOR MONETARY AND FISCAL POLICY. THAT IS WHAT WE HAVE. BOTH POLICIES HAVE THE SAME GOALS. THEN WHY THE CHARGES THAT FISCAL POLICY AND MONETARY POLICY ARE DANCING TO DIFFERENT DRUMMERS? THE FACT IS THAT THERE CAN BE DIFFERENCES OF VIEWS ON THE ATTAINABILITY OF SPECIFIC GOALS WITHIN A SPECIFIC TIME FRAME. THE GOALS IN A BROAD CONTEXT -- SUCH AS THOSE IN THE EMPLOYMENT ACT -- ARE SHARED. BUT ON SPECIFIC OBJECTIVES -- A PARTICULAR UNEMPLOYMENT RATE AND PRICE PERFORMANCE BY A SPECIFIC DATE -- THERE CAN BE SIGNIFICANT DISAGREEMENT.

THIS IS NOT AN ISSUE OF COORDINATION OF POLICIES. YOU CANNOT DEMONSTRATE THAT EACH SPECIFIC GOAL CAN BE ACHIEVED AT A SPECIFIC TIME IF WE WOULD SIMPLY MESH OR COORDINATE OUR ECONOMIC POLICY TOOLS. I CAN'T STRESS THIS POINT TOO MUCH SINCE SO MANY IN THE POLICY ARENA ARGUE, PERHAPS ONLY FOR PUBLIC CONSUMPTION, THAT YOU CAN. TO USE AN EXAGGERATED EXAMPLE BUT ONE RELATED TO THE SPECIFIC GOALS OF SOME IN OUR SOCIETY, THERE IS NO ARRANGEMENT OF CURRENT ECONOMIC POLICY TOOLS THAT COULD ACHIEVE AN UNEMPLOYMENT RATE OF 5 1/2 PERCENT AND PRICE INCREASES OF LESS THAN 5 PERCENT BY THE END OF 1977. THE PROBLEM HERE IS THE ATTAINABILITY OF SPECIFIC GOALS WITHIN A SPECIFIC TIME FRAME -- NOT THE EXTENT OF COORDINATION.

VIEWING THIS IN A SLIGHTLY DIFFERENT WAY, WE CAN ALSO SAY THAT IT IS A MISTAKE TO PRESUME THAT CONFLICTS AMONG SPECIFIC GOALS REFLECT A LACK OF COORDINATION OF POLICIES. EVERYONE MUST AGREE THAT IN THE SHORT RUN IT IS FREQUENTLY IMPOSSIBLE TO ACHIEVE BOTH UNEMPLOYMENT AND PRICE GOALS -- AT LEAST FULLY. THIS IS NOT TO SAY THAT WE SHOULD BE PURSUING ONE AND IGNORING

THE OTHER. RATHER, WE SHOULD BE TRYING TO ACHIEVE BOTH IN THE LONG RUN.

SO THE IMPORTANT ECONOMIC ISSUES RARELY RELATE TO COORDINATION BUT TO THE ATTAINABILITY OF SPECIFIC GOALS WITHIN A GIVEN TIME FRAME AND THE POSSIBLE CONFLICTS AMONG GOALS. FOCUSING SOLELY ON COORDINATION TENDS TO OBSCURE THE UNDERLYING ECONOMIC POLICY ISSUES.

ANOTHER CONCEPTION, OR I SHOULD SAY MISCONCEPTION, OF COORDINATION IS THAT POLICIES MUST ALWAYS OPERATE IN THE SAME DIRECTION AT THE SAME TIME. THEY NEED TO ONLY IF THEY HAVE THE SAME IMPACTS AND THE SAME TIMING. MONETARY POLICY AND FISCAL POLICY HAVE DIFFERENT IMPACTS AND AFFECT THE ECONOMY IN A DIFFERENT TIME PATTERN. THEREFORE, THERE IS NO REASON TO SAY THAT THEY MUST NECESSARILY BOTH BE OPERATING IN THE SAME DIRECTION PRECISELY AT THE SAME TIME. AND, IN FACT, IT IS THOSE DIFFERENCES WHICH DO GIVE RISE TO THE DISCUSSIONS AS TO THE PROPER "MIX" OF POLICIES. UNFORTUNATELY, THAT PROPER MIX MAY NOT BE ACHIEVED NOT ONLY BECAUSE OF THE DIFFERENT CONCEPTIONS OF ATTAINABILITY I MENTIONED BEFORE BUT ALSO BECAUSE THE POLICIES DIFFER IN REACTION OR IMPLEMENTATION TIMES.

MANY ECONOMISTS FEEL, FOR EXAMPLE, THAT IN THE EARLY 1960'S AN EASIER FISCAL POLICY AND TIGHTER MONETARY POLICY THAN WE ACTUALLY HAD WOULD HAVE BEEN MORE APPROPRIATE TO ATTACKING THE HIGHER THAN DESIRED UNEMPLOYMENT RATE WHILE ALSO STEMMING THE BALANCE OF PAYMENTS DRAIN OF THE PERIOD. WHILE HINDSIGHT IS GOOD, THIS VIEWPOINT WAS ACTUALLY STRONGLY ENDORSED BY SOME ECONOMISTS AT THE TIME, AND FORMED PART OF THE IMPETUS THAT LED TO THE TAX REDUCTION OF 1964. HOWEVER, THERE WAS A TWO-YEAR LONG DEBATE BEFORE THIS TAX CHANGE WAS MADE, HEAVILY UNDERSCORING THE PONDEROUSNESS OF THE POLITICAL PROCESS IN IMPLEMENTING A CHANGE IN FISCAL POLICY VIA THE TAX CHANGE ROUTE. AND THE \$50 REBATE ISN'T AN EXCEPTION TO THE RULE. IT'S NOT A TAX CHANGE AT ALL!

IT'S AN EXPENDITURE, PURE AND SIMPLE.

FISCAL POLICY CHANGES CAN ALSO BE PRODUCED BY CHANGES IN REGULAR SPENDING PATTERNS, BUT THIS KIND OF CHANGE ALSO WORKS SLOWLY AND IS DIFFICULT TO REVERSE. MONETARY POLICY CAN, IN THEORY AT LEAST, BE CHANGED ALMOST INSTANTANEOUSLY, ALTHOUGH IN PRACTICE MAJOR CHANGES HAVE BEEN INTRODUCED RELATIVELY SLOWLY AND AFTER CAREFUL DELIBERATION, AT LEAST PARTLY BECAUSE THE IMPACT OF SWIFT REVERSAL CAN BE SEVERE.

*Unemployment has
risen
dramatically*

HOW ARE ECONOMIC POLICIES COORDINATED?

IT SHOULD BE CLEAR BY NOW THAT IN MY VIEW COORDINATION MUST FOCUS ON REACHING AGREEMENT ON ATTAINABLE GOALS. IT IS MY CONTENTION THAT WHILE WE STILL HAVE A WAY TO GO, WE HAVE MADE SIGNIFICANT STRIDES IN THAT DIRECTION IN RECENT YEARS. THESE GAINS HAVE TAKEN PLACE LARGELY THROUGH AN IMPROVED PROCESS FOR FISCAL POLICY FORMULATION. WHILE LESS SIGNIFICANT, I ALSO THINK THAT THE FORMALIZATION OF MONETARY POLICY COMMUNICATION TO CONGRESS HAS ALSO BEEN HELPFUL.

DURING THE PAST TWENTY YEARS OR SO, WE HAVE BEEN GOING THROUGH A QUIET BUT THOROUGH REVOLUTION IN THE FIELDS OF MONETARY AND FISCAL POLICY FORMULATION, AND IN THE IMPORTANCE ATTACHED TO THE RELATIVE IMPACT OF THESE TWO POLICIES ON THE ECONOMY. THE CHANGE IN OUTLOOK HAS COME AS OUR KNOWLEDGE OF THE STRUCTURE OF THE ECONOMY HAS IMPROVED AND AS EVENTS OUTSIDE THE U.S. ECONOMY HAVE BECOME INCREASINGLY IMPORTANT DETERMINANTS OF WHAT HAPPENS INSIDE IT.

THESE CHANGES BOTH IN OUTLOOK AND IMPORTANCE HAVE BEEN PARTICULARLY RAPID IN THE 1970'S WITH THE CLOSING OF THE GOLD WINDOW, FLOATING EXCHANGE RATES, INFLATION SO RAPID THAT WE TURNED TO WAGE AND PRICE CONTROLS, THE OIL EMBARGO AND THE SUBSEQUENT JUMP IN ENERGY PRICES, AND THE MOST SEVERE RECESSION AND HIGHEST UNEMPLOYMENT SINCE THE GREAT DEPRESSION.

ONE OF THE MOST OBVIOUS WAYS IN WHICH THE STRUCTURE OF POLICY MAKING HAS MOVED TO MEET THE NEW CONDITIONS AND TAKE ADVANTAGE OF THE NEW KNOWLEDGE IS IN THE FORMULATION OF FISCAL POLICY. AT FIRST GLANCE, FISCAL POLICY SEEMS TO BE AN EXECUTIVE FUNCTION. THE ADMINISTRATION PREPARES AND PROPOSES A BUDGET EACH YEAR AND SUBMITS IT TO CONGRESS FOR APPROPRIATE ACTION. IN FACT, HOWEVER, IT IS THE CONGRESS, THROUGH ITS POWER TO APPROPRIATE FUNDS AND ADJUST TAXES, THAT REALLY DETERMINED FISCAL POLICY. THE APPROPRIATIONS PROCESS WAS, UNTIL RECENTLY, PIECEMEAL AND UNCOORDINATED, BOTH AS REGARDS TRADEOFFS BETWEEN PROGRAMS AND AS REGARDS TAX CHANGES. SO, ANY RELATIONSHIP BETWEEN THE PROPOSED BUDGET AND THE FINAL SHAPE OF INDIVIDUAL PROGRAMS AND THE RESULTING AGGREGATE FISCAL POLICY WAS COMPLETELY DEPENDENT ON THE ABILITY OF THE ADMINISTRATION TO SELL ITS PROGRAM TO THE CONGRESS.

BEFORE THE DEVELOPMENT OF LARGE, UNCONTROLLED ENTITLEMENT PROGRAMS, THE EXECUTIVE COULD REASSERT SOME CONTROL BY NOT SPENDING ALL THE FUNDS APPROPRIATED. THIS LEEWAY OF EXECUTIVE CONTROL HAS NOW VIRTUALLY DISAPPEARED WITH THE REQUIREMENT THAT CONGRESS APPROVE SUCH CONTROL OVER OPTIONAL SPENDING AND BY THE RAPID GROWTH OF PROGRAMS WHERE SPENDING IS LIMITED ONLY BY THE LIMITATION OF RECIPIENT ELEGIBILITY.

DESPITE THE LIMITATIONS WHICH THIS PROCESS OF ESTABLISHING LEVELS OF REVENUES AND EXPENDITURES PLACES ON THE ADMINISTRATIVE BUDGETING PROCEDURE, THE BUDGET DOCUMENT HAS BEEN, YEAR AFTER YEAR, THE NEAREST THING TO A GOVERNMENT OPERATING PLAN THAT EXISTS. FURTHERMORE, THE USEFULNESS OF THE BUDGET DOCUMENTS, TOGETHER WITH THE ANNUAL ECONOMIC REPORT OF THE PRESIDENT, HAVE PROGRESSIVELY BECOME MORE INFORMATIVE AS DETAILS ON FUTURE COSTS OF ONGOING PROGRAMS, PROJECTIONS OF EXPECTED FUTURE REVENUES AND EXPENDITURES, AND ASSUMPTIONS ABOUT THE PROGRESS OF THE ECONOMY HAVE BECOME INCREASINGLY MORE IMPORTANT IN THE DEVELOPMENT OF THE BUDGET PRESENTATION.

WHAT I AM LEADING UP TO, OF COURSE, IS THE NEW CONGRESSIONAL BUDGETARY PROCEDURE. I KNOW THAT ALICE RIVLIN HAS TALKED WITH YOU ABOUT THIS IN SOME DETAIL BUT I WOULD LIKE TO SAY A WORD ABOUT IT FROM MY VANTAGE POINT OF EARLIER EXPERIENCE.

IN ASSESSING THE RESULTS OF THE NEW BUDGETING PROCEDURE TO DATE, IT SEEMS TO ME THAT THE NEW PROCESS HAS BEEN SUCCESSFUL IN ONE IMPORTANT WAY. IT HAS CLEARLY CONCENTRATED THE ATTENTION OF CONGRESS ON FISCAL POLICY AS A WHOLE: TOTAL EXPENDITURES, TOTAL REVENUES, AND THE SIZE OF THE SURPLUS OR DEFICIT. FURTHERMORE, IT HAS PROVIDED A FRAMEWORK FOR CONGRESS TO DEBATE FISCAL POLICY IN THE LIGHT OF BROAD ADVICE ON THE STATE AND LIKELY COURSE OF THE ECONOMY AND THE IMPACT OF FISCAL POLICY ON THAT COURSE. THIS IS A CLEAR STEP FORWARD FROM A POLICY WHICH RESULTED FROM THE AGGREGATED ACTIONS OF CONGRESS ON THOUSANDS OF INDIVIDUAL FEDERAL PROGRAMS. IN ADDITION, I SUSPECT, ALTHOUGH I CANNOT PROVE IT, THAT THE ESTABLISHMENT OF OVERALL EXPENDITURE TOTALS BEFORE DETAILED PROGRAM EXPENDITURES HAS TENDED TO RESTRAIN FEDERAL SPENDING TO LOWER LEVELS THAT WOULD HAVE RESULTED OTHERWISE, WITH ATTENDANT GOOD RESULTS FOR ALL OF US AS TAXPAYERS WHO ULTIMATELY PAY THE BILL AND AS CONSUMERS WHO FEEL THE RESULTS OF EXCESSIVE DEFICITS AS INFLATION.

IT SEEMS TO ME, THEREFORE, THAT THIS CHANGE IN PROCEDURES HAS THE POTENTIAL OF REDUCING THE DISPARITY AMONG PERCEPTIONS OF ATTAINABLE GOALS. THE PROCEDURES WILL NOT INSURE ELIMINATION OF THE DIFFERENCES BUT BY CONCENTRATING CONGRESS'S ATTENTION ON FISCAL POLICY AS A WHOLE, THE NATURE OF THE DIFFERENCES ARE KNOWN, AND NOT SUBMERGED IN A MORASS OF INDIVIDUAL SPENDING AND TAXING DECISIONS.

WE ARE ABOUT TO ENTER INTO A PERIOD OF INCREASED FISCAL STIMULUS. THE NEW ADMINISTRATION HAS PROPOSED LARGER DEFICITS OVER THE NEXT YEAR AND A

HALF ACCOMPANIED BY A ONE-TIME TAX REBATE AND SOME PERMANENT TAX REDUCTION. WHILE CONGRESS HAS YET TO COMPLETE ACTION ON THE EXACT DETAILS OF THE PACKAGE, IT SEEMS LIKELY THAT THE STIMULUS WILL BE SLIGHTLY LARGER THAN THE ADMINISTRATION'S REQUEST, AT LEAST FOR THE FIRST SIX MONTHS. WHILE THE PACKAGE SEEMS CERTAIN, DEBATES CONTINUE AMONG A RANGE OF OPINIONS FROM THOSE WHO SAY STILL MORE STIMULUS IS NEEDED TO THOSE WHO SAY THAT IT IS NOT ONLY NOT NEEDED BUT THAT FISCAL POLICY WOULD BE TOO STIMULATIVE EVEN WITHOUT THIS CHANGE.

THE APPROPRIATE DIRECTION FOR MONETARY POLICY GIVEN THIS ADDED STIMULUS IS EQUALLY SUBJECT TO DEBATE. HOWEVER, THE FOCUS OF MONETARY POLICY OVER THE NEXT SEVERAL MONTHS HAS BEEN MADE QUITE EXPLICIT. IT IS TO KEEP GROWTH OF THE AGGREGATES AT LEVELS LOW ENOUGH TO FORESTALL REKINDLING OF MORE RAPID INFLATION WITHOUT INHIBITING GROWTH OF THE ECONOMY AT A RATE CONSISTENT WITH ITS LONG-TERM GROWTH TREND.

FOR THE PAST TWO YEARS, THE INTENTION OF MONETARY POLICY HAS BEEN EXPLICITLY ANNOUNCED EVERY QUARTER. CHAIRMAN BURNS HAS APPEARED ALTERNATELY BEFORE THE HOUSE AND SENATE BANKING COMMITTEES EVERY QUARTER TO REVIEW THE DEVELOPMENTS IN THE ECONOMY AND TO ANNOUNCE THE MONETARY AGGREGATE GROWTH RATES FOR THE YEAR AHEAD WHICH APPEAR TO BE CONSISTENT WITH EFFORTS TO RETURN TO PRICE STABILITY AT ACCEPTABLE RATES OF EMPLOYMENT. THE FED WAS CREATED BY THE CONGRESS AND IT IS ENTIRELY APPROPRIATE THAT THIS OVERSIGHT PROCEDURE TAKE PLACE.

WHILE MONETARY POLICY OBJECTIVES WERE NEVER AS SECRET AS SOME HAVE CHARGED, IT IS CLEAR THAN CONGRESS IS NOW FULLY INFORMED AS TO THE DIRECTION OF MONETARY POLICY. IN MY VIEW, THIS IS AN EXCELLENT EXAMPLE OF APPROPRIATE AND IMPROVED COORDINATION OF OUR ECONOMIC POLICIES.

IN ADDITION TO THIS ROUTE, OF COURSE, THERE ARE A VARIETY OF LESS FORMALIZED ARRANGEMENTS TO FACILITATE THE EXCHANGE OF VIEWS. THE CHAIRMAN NOT ONLY APPEARS QUARTERLY BEFORE CONGRESS BUT HE AND OTHER BOARD MEMBERS TESTIFY FREQUENTLY ON ISSUES IMPORTANT TO THE FORMULATION AND EXECUTION OF OUR ECONOMIC POLICIES. NOT ONLY THE PRINCIPALS BUT STAFF MEMBERS OF CONGRESSIONAL COMMITTEES, THE TREASURY, THE COUNCIL OF ECONOMIC ADVISERS AND THE BOARD MEET FREQUENTLY TO DISCUSS THE ECONOMY AND THE EXPECTED IMPACTS OF VARIOUS ECONOMIC POLICIES.

SHOULD COORDINATION BE IMPROVED?

BY NOW I HOPE THAT YOU AGREE WITH ME THAT ANY ECONOMIC SHORTCOMINGS THAT WE MIGHT HAVE ARE NOT REALLY FAILURES OF COORDINATION. I THINK, FOR EXAMPLE, THAT IT WOULD BE A MISTAKE TO ATTEMPT TO LEGISLATE ANY SPECIFIC FRAMEWORK OF CONSULTATION OF COORDINATION BEYOND WHAT REGULARLY DEVELOPS ON AN INFORMAL BASIS. THE STYLE OF EACH ADMINISTRATION AND THE CONGRESS AND THE OUTLOOK OF THE KEY PERSONALITIES INVOLVED SHOULD BE GIVEN THE FLEXIBILITY TO WORK OUT A SYSTEM WHICH MEETS EVER CHANGING NEEDS. ANY MORE FORMAL PROCEDURE RUNS THE RISK THAT THE ABILITY OF THE FEDERAL RESERVE TO DEVELOP AND ADVOCATE POLICIES WHICH LOOK TO THE LONG RUN WELL-BEING OF THE ECONOMY CAN GET LOST OR, AT THE LEAST, BECOME POLITICIZED. THE INFORMAL COORDINATION METHODS HAVE SERVED US TOO WELL TO MAKE IT WORTHWHILE TO ACCEPT THAT RISK.

RATHER THAN TAKING OUR TIME TO CHASE THE SHIBBOLETH OF COORDINATION WE SHOULD BE DIRECTING OUR ATTENTION TO DETERMINING AND AGREEING ON WHAT IS ATTAINABLE.

THAT MEANS, OF COURSE, IMPROVEMENT IN OUR KNOWLEDGE AND SKILL IN ECONOMIC POLICY FORMULATION AND EXECUTION. BUT SKILL ALONE WILL NOT BE ENOUGH. WE STILL HAVE A LONG WAY TO GO IN MESHING OUR EXPECTATIONS WITH

REALITY -- OF REASSERTING AND RE-EMPHASIZING THAT WE LIVE IN A WORLD OF SCARCE RESOURCES WHERE NEITHER CONSUMERS, BUSINESS OR GOVERNMENT CAN SATISFY ALL WORTHWHILE GOALS EITHER NOW OR IN THE FUTURE. THERE WILL BE UNREALIZED WANTS -- PROBABLY MORE AND MORE SO IF OUR ECONOMIC AND CULTURAL GROWTH PATTERNS FAIL TO MEET OUR EXPECTATIONS. THERE WILL BE MANY GOALS THAT WILL HAVE TO BE FOREGONE.

WE WILL HAVE TO MAKE THOSE DECISIONS. COORDINATION OF ECONOMIC POLICIES WON'T DO IT FOR US.