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I AM PLEASED TO HAVE BEEN INVITED TO MEET WITH YOU THIS MORNING. IT GIVES ME AN OPPORTUNITY TO DISCUSS SEVERAL ISSUES THAT I THINK MAY BE INTERESTING TO BANKERS. AND PERHAPS I CAN EVEN DEMONSTRATE THAT I DON'T DISCRIMINATE--I'M JUST AS PLEASED TO SEE THOSE OF YOU FROM NON-MEMBER BANKS AS THOSE FROM MEMBER BANKS.

THERE ARE ANY NUMBER OF ISSUES FROM NOW ACCOUNTS AND REMOTE TERMINALS TO BANKING ETHICS IN WHICH YOU MIGHT BE INTERESTED. FORTUNATELY FOR ME, HOWEVER, YOUR PROGRAM CHAIRWOMAN GAVE ME SOME GUIDANCE, SO I'LL FOLLOW HER ADVICE AND TALK ABOUT SOME OF THE ELEMENTS OF SIGNIFICANCE IN THE NATIONAL ECONOMIC PICTURE.

IT IS, I THINK, FAIRLY CLEAR THAT MORE CONCERN HAS BEEN EXPRESSED IN RECENT WEEKS ABOUT THE VIABILITY OF OUR CURRENT ECONOMIC ADVANCE. THE NEGATIVE COMMENTS HAVE BEEN MORE FREQUENT, IN PARTICULAR, SINCE THE RELEASE OF THE THIRD QUARTER DATA ON OUR COUNTRY'S GROSS NATIONAL PRODUCT WHICH SUGGESTED THAT THE ECONOMY MAY HAVE SHIFTED INTO A LOWER GEAR AFTER THE UNUSUALLY RAPID RISE OF THE FIRST HALF OF 1977. THIS PERCEPTION OF THE STATE OF THE ECONOMY IS ONE OF THE AREAS I WOULD LIKE TO DISCUSS. HOW VALID IS THE VIEW THAT OUR NATION'S ECONOMIC PERFORMANCE IS SLIPPING? WHAT TYPE OF OUTLOOK APPEARS MOST LIKELY FOR THE YEAR AHEAD?

THE OTHER AREA I WOULD LIKE TO ADDRESS,IS MORE NARROWLY FOCUSED ON MONETARY POLICY. WHAT IS THE DEBATE ON INTEREST RATES AND MONEY GROWTH RATES ALL ABOUT? WHAT ARE THE REAL IMPLICATIONS FOR DEVELOPMENTS IN THE ECONOMY?

LET'S TAKE A LOOK, FIRST, AT THE CURRENT ECONOMIC PICTURE. IN MY VIEW, MANY OBSERVERS ARE FAR MORE PESSIMISTIC ABOUT THE ECONOMIC OUTLOOK THAN IS

WARRANTED. SOME ARE UNCOMFORTABLE BECAUSE THE ECONOMIC EXPANSION IS NOW MORE THAN TWO AND A HALF YEARS OLD AND THEREFORE, ON AVERAGE, MAY NOT BE LIKELY TO BE SUSTAINED MUCH LONGER. THEY BUTTRESS THIS POSITION WITH OBSERVATIONS ON THE STICKINESS OF THE UNEMPLOYMENT RATE AT 7 PERCENT, SOMEWHAT LESS RAPID PERSONAL INCOME GROWTH, THE SLOWER RATE OF REAL GNP GROWTH IN THE THIRD QUARTER, A FAILURE OF CAPITAL SPENDING ON INDUSTRIAL PLANT AND EQUIPMENT TO GROW RAPIDLY AND AN ABYSMAL PERFORMANCE BY THE STOCK MARKET.

BUT REPORTS OF THE DEATH OR THE SERIOUS ILLNESS OF THE CURRENT ECONOMIC EXPANSION ARE CLEARLY EXAGGERATED. THERE IS REALLY NO BASIS FOR ARGUING THAT WE ARE NEAR THE PEAK OF THE EXPANSION STAGE OF THIS CYCLE, EVEN WORSE, THAT WE ARE ALREADY IN THE CONTRACTION PHASE. THE CURRENT INFORMATION FLOW DOESN'T CONFIRM IT. CERTAINLY THE PACE OF EXPANSION DID SLOW IN THE THIRD QUARTER. BUT FROM A VERY RAPID AND UNSUSTAINABLE FIRST HALF PACE. THE THIRD QUARTER PERFORMANCE WAS NOT UNEXPECTED.

NATIONALLY, THE CONDITIONS FOR FURTHER ECONOMIC EXPANSION REMAIN IN PLACE. INDUSTRIAL PRODUCTION CONTINUES TO EXPAND. EMPLOYMENT HAS INCREASED SUBSTANTIALLY. RETAIL SALES ARE GOOD. HOUSING REMAINS STRONG. CAPITAL SPENDING PROSPECTS HAVE STRENGTHENED SOMEWHAT.

OUR MID-WEST ECONOMY SHOWS A SOMEWHAT SIMILAR PICTURE OF ECONOMIC HEALTH. THE EXCEPTION IS THE AGRICULTURAL SECTOR, WHERE SOME CAUTIOUSNESS IS IN ORDER, AS SOME OF YOU KNOW. WITH LOWER GRAIN PRICES BUT HIGHER PRO-CESSING COSTS, CASH FLOWS IN AGRICULTURE HAVE TAKEN A REAL BEATING. THE NET RESULT TO YOU BANKERS IS, OF COURSE, MORE RAPID LOAN GROWTH, SLOWER LOAN REPAYMENTS, AND INCREASED LOAN RENEWALS. THOSE OF YOU WITH AGRICULTURAL LOAN INVOLVEMENT MAY HAVE SOME CREDITS THAT WILL TAKE MORE THAN USUAL ATTENTION.

BUT MY BASIC OPTIMISM REMAINS INTACT. MAJOR RETAILERS ARE REPORTING SALES AT GOOD LEVELS. THEY APPEAR TO BE PLANNING FOR A STRONG CHRISTMAS SEASON. MUCH OF THE RETAIL STRENGTH IS IN HARD GOODS--REFRIGERATORS,

ELECTRIC RANGES, MICROWAVE OVENS AND DRYERS. INSTALMENT CREDIT IS BEING USED FREELY, INDICATING CONSUMER CONFIDENCE, AND THE DELINQUENCY EXPERIENCE TO DATE IS GENERALLY CONSIDERED TO BE EXCELLENT.

IT LOOKS AS THOUGH THE 1978 CARS ARE BEING WELL RECEIVED. BUT IT IS DIFFICULT SO FAR TO MAKE A VERY FIRM EVALUATION SINCE THE STRENGTH OF THE AUTO MARKET VARIES GREATLY BY MODEL. SOME MODELS ARE IN SHORT SUPPLY WHILE THE STOCK OF OTHERS MAY BE CONTROLLED BY PERIODIC PLANT CLOSINGS.

THE IMPACT OF THE AUTO INDUSTRY'S PROGRAM TO "DOWNSIZE" CARS ON CAPITAL INVESTMENT SHOULD NOT BE IGNORED. ORDERS FROM THE AUTO COMPANIES ARE LARGELY RESPONSIBLE FOR THE STRENGTH REPORTED IN MACHINE TOOL ORDERS, ESPECIALLY PRESSES AND TRANSFER MACHINES. ORIGINALLY CONCENTRATED IN EQUIPMENT, AUTO INDUSTRY CAPITAL SPENDING PROGRAMS NOW INCLUDE A SUBSTANTIAL COMMITMENT TO NEW STRUCTURES AND THE EXPANSION OF EXISTING BUILDINGS.

EVERYONE HERE KNOWS THAT THE CAPITAL GOODS INDUSTRY HAS BEEN THE LAGGARD IN THIS RECOVERY. BUT CAPACITY UTILIZATION HAS BEEN INCREASING STEADILY. PRESSURE IS BEGINNING TO BUILD IN MANY COMPANIES TO START MOVING IN THE DIRECTION OF NEW PLANT. CAPITAL OUTLAYS ARE STILL INCREASING AND WE THINK THAT THE PACE MAY HAVE QUICKENED IN RECENT MONTHS.

HOUSING STARTS HAVE BEEN STRONG ALL YEAR AND WE ARE SEEING NEW STRENGTH IN THE PREVIOUSLY DEPRESSED MULTI-FAMILY SECTOR. BUILDING PERMIT LEVELS SUGGEST THAT THE STRENGTH OF HOUSING WILL CONTINUE. HOUSING ANALYSTS, EXPECT THAT STARTS IN 1978 WILL BE ABOUT THE SAME AS THIS YEAR WITH APARTMENTS SOMEWHAT HIGHER AND ONE-FAMILY UNITS SOMEWHAT LOWER. RENTS ARE GRADUALLY RISING TO A POINT THAT IS ENCOURAGING PROMOTERS OF NEW APARTMENT BUILDINGS.

NONRESIDENTIAL CONSTRUCTION ACTIVITY IS IMPROVING. OFFICE BUILDINGS LEAD THE UPTREND BUT INDUSTRIAL BUILDING IS ALSO PICKING UP. OUTLAYS TO BUILD OR REPAIR HIGHWAYS AND HIGHWAY STRUCTURES AND TO BUILD SEWER AND WATER SYSTEMS ARE RATHER STRONG.

These developments should continue into the months immediately ahead. While consumer credit has grown rapidly, an analysis of the burden does not suggest that debt burdens are out of line. Real disposable income should continue to rise and while I do not think there will be a boom in consumer spending, I do expect the consumer to make a positive contribution to further economic growth.

The entire capital goods area is likely to contribute a large share to sustained expansion. From machine tools through housing and nonresidential construction there appears to be a basis for expansion. And then if you add the Government sector, state and local as well as Federal, we should see a continuation of moderate expansion on well into 1978.

The scenario of moderate and appropriate expansion into 1978, at least to the extent that we are talking about the first half of next year, is not significantly different from that presented by most observers. Most executives and analysts share the opinion that activity will continue to grow at least through the first half of 1978. The concern is with the continuation of the expansion beyond that time.

I think that it is important to stress this point that it is the future some nine to twelve months ahead that is the focus of discussion. Far too many of the public commentaries have implied that the expansion is already ill. But clearly that is not the case. There is no set of firm developments or trends that pre-ordain a decline in the economic advance. Certainly the near-term future has been largely set by economic factors already in place. But the longer term economic future depends on events yet to take place--whether they be external shocks such as further oil price increases or another bout of severe weather or internal developments such as the form of our government's economic policies.

A SIGNIFICANT PART OF THE CONCERN FOR THE LONGER TERM FUTURE MUST REFLECT THE ELEMENTS OF UNCERTAINTY THAT HAVE BEEN SO WIDELY DISCUSSED. BUSINESS MUST ALWAYS OPERATE TO SOME DEGREE IN AN ATMOSPHERE OF UNCERTAINTY. BUT WHEN THAT UNCERTAINTY IS UNUSUALLY GREAT, IT TENDS TO DELAY EFFORTS TO MOVE IN NEW DIRECTIONS AND TO SEIZE OPPORTUNITIES. ENERGY, ENVIRONMENTAL AND TAXATION UNCERTAINTIES CLEARLY EXIST. AND WHILE WE MAY HOLD DIFFERENT VIEWS AS TO THE PROPER SOLUTIONS TO THESE AREAS OF CONCERN, THE ESSENTIAL ASPECT IS NOT SO MUCH THE FORM OF THE SOLUTION AS THE KNOWLEDGE OF WHAT THE RULES OF THE ECONOMIC GAME WILL BE.

IN SUGGESTING THIS, I DON'T MEAN TO IMPLY THAT THE DIRECTION IN WHICH WE MOVE IN SOLVING THESE SIGNIFICANT PROBLEMS IS UNIMPORTANT. THAT IS SURELY NOT THE CASE. BUT IN MAKING OUR PROJECTIONS FOR THE FUTURE WE MUST DISTINGUISH BETWEEN THE EFFECTS OF UNCERTAINTY AND THE LIKELY IMPACTS OF OUR ECONOMIC POLICIES.

I AM AMONG THOSE, FOR EXAMPLE, THAT FEEL VERY STRONGLY ABOUT THE NEED TO DEVELOP EFFECTIVE ECONOMIC POLICIES FOR THE STIMULATION OF CAPITAL INVESTMENT. AS I NOTED EARLIER, THERE HAS BEEN SOME INCREASE IN THE PACE OF CAPITAL SPENDING. THE LONGER-TERM ECONOMIC FUTURE, HOWEVER, DEPENDS CRITICALLY ON A CONTINUATION OF THAT SPENDING AT A SOMEWHAT MORE EXPANSIVE PACE. FOR MANY YEARS NOW WE HAVE BEEN ADDING LESS TO OUR PRODUCTIVE PLANT HERE THAN HAVE OTHER INDUSTRIALIZED ECONOMIES. AND WE CONTINUE AS A PEOPLE TO ASK, INDEED EXPECT, EVER GREATER OUTPUT AND HIGHER LIVING STANDARDS. ATTEMPTS TO BRING ABOUT A MORE EXTENSIVE UTILIZATION OF OUR LABOR FORCE WILL NOT MEET THOSE NEEDS WITHOUT CAPITAL SPENDING AS WELL. INDEED, THE EXPANSION OF BUSINESS SPENDING CAN BE THE EFFECTIVE DRIVING FORCE FOR THE MORE EXTENSIVE USE OF OUR LABOR FORCE.

AND IN THE LONGER RUN, THE EXPANSION OF OUR PRODUCTIVE CAPACITY WILL HAVE A SIGNIFICANT BEARING ON OUR ABILITY TO REDUCE THE RATE OF ADVANCE IN

PRICES. INFLATION IS OFTEN VIEWED LARGELY AS A MONETARY PHENOMENON BUT IT FUNDAMENTALLY HAS AN IMPORTANT SUPPLY DIMENSION AS WELL.

THESE ELEMENTS OF UNCERTAINTY AND THE SHAPE OF ECONOMIC POLICIES FOR THE PERIOD AHEAD ARE INTERTWINED, AS THEY ALWAYS ARE, WITH DEVELOPMENTS IN THE FINANCIAL MARKETS. I WISH TO STRESS THE INTERTWINING OF ECONOMIC FACTORS, THE INTER-RELATIONSHIP OF ALL THE IMPORTANT ELEMENTS IN OUR ECONOMY, IN ORDER TO EMPHASIZE THAT INTEREST RATES, MONETARY AGGREGATE GROWTH--INDEED IN A BROADER CONTEXT MONETARY POLICY--ARE NOT INDEPENDENT ELEMENTS OF OUR ECONOMIC LIFE. UNFORTUNATELY, MUCH PUBLIC DISCUSSION HAS SET MONETARY POLICY APART AS A UNIQUE ELEMENT WHICH SOMEHOW WILL DETERMINE THE COURSE OF THE ECONOMY IN LATE 1978 AND ON INTO 1979. IT DOES NOT AND CAN NEVER HAVE THAT ROLE IN OUR ECONOMY.

I HAVE BEEN PARTICULARLY DISMAYED BY THE EFFORTS NOW SO WIDESPREAD IN THE PRESS, FINANCIAL LETTERS AND ADVISORY SERVICES TO PLAY UP A CONFRONTATION BETWEEN THE FEDERAL RESERVE SYSTEM AND THE ADMINISTRATION. MY PREFERENCE WAS TO IGNORE THE INITIAL SHOTS, FEELING THAT NO PUBLIC BENEFIT WAS SERVED BY FURTHER DISCUSSION. HOWEVER, THE FREQUENCY OF THE REPORTS, THE DOWNRIGHT SILLY IMPLICATIONS DRAWN ON OCCASION MAKE IT HARD TO REFRAIN FROM COMMENT.

THE INTEREST RATE VS. MONETARY GROWTH DEBATE IS NOT A CONFRONTATION BETWEEN THE ADMINISTRATION AND THE FEDERAL RESERVE SYSTEM. THE QUESTION OF HOW MUCH EMPHASIS TO PLACE ON INTEREST RATES AND HOW MUCH EMPHASIS TO GIVE TO MONETARY AGGREGATES IN THE CONDUCT OF MONETARY POLICY IS AN ECONOMIST'S ARGUMENT, NOT A POLITICAL ARGUMENT. THE ECONOMIC PROFESSION AS A WHOLE HAS BEEN DEBATING THIS ISSUE FOR MANY YEARS. IT IS DEBATING THE ISSUE TODAY AND I SUSPECT WILL STILL BE DOING SO MANY YEARS FROM NOW.

THE CONCERN WHICH SOME ARE EXPRESSING NOW IS THAT INTEREST RATES MAY BE RISING TO LEVELS THAT MAY IMPEDE REAL ECONOMIC GROWTH. THE ARGUMENT THAT

INTEREST RATES AFFECT ECONOMIC ACTIVITY IS A REASONABLE ONE. OF COURSE THEY DO. TO SAY THAT INTEREST RATES DON'T MATTER IS AS FOOLISH AS SAYING THAT MONEY DOESN'T MATTER.

I SEE NO FIRM EVIDENCE THAT THE INTEREST RATE INCREASES WE HAVE SEEN IN RECENT MONTHS HAVE HARMED ECONOMIC GROWTH. A MAJOR REASON IS THAT MOST OF THE IMPACT ARISES FROM DEVELOPMENTS IN THE LONGER TERM MARKETS. AS YOU MAY BE AWARE THE INCREASES IN LONGER TERM RATES HAVE BEEN MODEST. AT SOME POINT, OF COURSE, ATTRACTIVE RATES ON SHORT-TERM INSTRUMENTS SUCH AS TREASURY BILLS WILL RESULT IN OUTFLOWS OR REDUCED INFLOWS INTO COMMERCIAL BANKS AND THRIFT INSTITUTIONS. WHILE TIME AND SAVINGS FLOWS HAVE SLOWED A BIT, THERE IS NO EVIDENCE OF SIGNIFICANT DISINTERMEDIATION OR ON THE ABILITY OF MORTGAGE INSTITUTIONS TO PROVIDE NECESSARY FUNDS. NO ONE CAN BE CERTAIN AS TO THE "TRIGGER" LEVEL OF INTEREST RATES BUT I THINK THAT WE CAN BE REASONABLY CERTAIN THAT THERE ARE NO IMMEDIATE PROBLEMS.

BUT IN FRAMING MONETARY POLICY, THE MONETARY AGGREGATES--CURRENCY PLUS DEPOSITS--CANNOT BE IGNORED EITHER. I AM CERTAIN THAT ALL OF YOU ARE AWARE OF THE SCHIZOPHRENIA OF THE REPORTS ON THE FED'S ACTIONS. ON ONE HAND, INCREASES IN SHORT-TERM RATES ARE REPORTED AS "TIGHTENING" BY THE FED. BUT REPORTING ON THE RAPID GROWTH OF THE MONETARY AGGREGATES, WE ARE TOLD THAT THE FED IS PURSUING AN EXCESSIVELY EASY MONETARY POLICY. ALL OF WHICH ONLY SUGGESTS I THINK THAT THINGS WOULD BE A LOT BETTER IF WE EITHER GOT RID OF OUR SHORT-HAND WAY OF DESCRIBING MONETARY POLICY AS EASY OR TIGHT OR AT LEAST IDENTIFIED CLEARLY WHAT WAS MEANT. THE FACT IS THAT MONETARY POLICY IS NOT CONDUCTED IN TERMS OF EASE OR TIGHTNESS IN THIS OR THAT VARIABLE BUT IN TERMS OF THE FINANCIAL CONDITIONS NECESSARY TO FOSTER THE SOUND EXPANSION OF THE ECONOMY WHILE RETURNING AS FAR AS WE CAN TOWARD REASONABLE PRICE STABILITY.

THE MONETARY AGGREGATES ARE IMPORTANT BECAUSE WE FULLY APPRECIATE THAT THERE IS A LINK BETWEEN MONEY CREATION AND INFLATION. NOW I AM NOT ONE WHO WILL SLAVISHLY FOLLOW A FIXED RATE OF MONETARY GROWTH DAY IN-DAY OUT, WEEK IN-WEEK OUT OR EVEN MONTH IN-MONTH OUT. IT IS IMPOSSIBLE TO OPERATE WITH SUCH PRECISION. AND IT ISN'T NECESSARY THAT WE DO SO TO ACHIEVE YOUR GOALS FOR THE ECONOMY. AND IF YOU TRIED YOU WOULD CREATE SERIOUS PROBLEMS FOR FINANCIAL MARKETS RATHER THAN GAINS FOR THE REAL ECONOMY. BUT THERE IS NO QUESTION THAT OVER LONGER PERIODS OF TIME EXCESSIVE MONETARY GROWTH LEADS TO TROUBLE.

THE PACE OF MONETARY EXPANSION HAS BEEN UNUSUALLY RAPID DURING RECENT MONTHS. THIS IS ESPECIALLY TRUE OF THE NARROWLY DEFINED MONEY SUPPLY (M_1)--CURRENCY PLUS DEMAND DEPOSITS ONLY--WHICH OVER THE PAST SIX MONTHS HAS INCREASED AT AN ANNUAL RATE OF 9.5 PERCENT. THIS RATE OF EXPANSION IS WELL ABOVE THE FEDERAL RESERVE'S STATED LONGER-RUN DESIRED PATH.

SINCE THE RECENT EXPANSION IN THE MONETARY AGGREGATES HAS TENDED TO RUN ABOVE EXPECTATIONS, SYSTEM OPEN MARKET OPERATIONS HAVE BEEN DIRECTED TOWARD HOLDING DOWN ON THE PROVISION OF BANK RESERVES. JUST AS ANY OTHER MARKET, THE MORE LIMITED AVAILABILITY OF RESERVE SUPPLIES RELATIVE TO DEMANDS HAS MEANT THAT THE PRICE OF MONEY--IN THIS CASE, THE RATE OF INTEREST--HAS GONE UP ON DAY-TO-DAY BANK BORROWINGS FROM OTHER BANKS (FEDERAL FUNDS) AND OTHER VERY SHORT-TERM SOURCES OF FINANCING. THE RATE PAID ON FEDERAL FUNDS, FOR EXAMPLE, IS UP ABOUT 2 PERCENTAGE POINTS FROM THE LOWS PREVAILING EARLY THIS YEAR. OTHER SHORT-TERM MARKET INTEREST RATES ALSO HAVE BEEN MOVED UP COMPARABLY, BUT ARE NO HIGHER TODAY THAN THE 1975 AVERAGES. AND AT THE SAME TIME, LONGER-TERM INTEREST RATES, WHICH AS I INDICATED EARLIER ARE OF MUCH GREATER SIGNIFICANCE TO THE REAL ECONOMY, HAVE INCREASED VERY LITTLE ON BALANCE.

Some would argue that the Federal Reserve should have responded more forcefully to the earlier bulges in the money supply. Indeed, a few would say that the reserves necessary to support the deposit expansion simply should not have been provided, letting financial markets and the economy suffer whatever consequences might result from what would presumably be a very sharp rise in interest rates. But I continue to believe that the wiser course is to limit the speed with which money market conditions are adjusted to changing monetary growth rates. I believe this partly because the monetary aggregates--particularly M_1--have proved rather conclusively to be inherently unstable in the short run. Prudence in our actions is dictated also by the fact that the relationship between the various measures of monetary growth and the performance of the economy is loose and very unreliable in the short run.

You may have seen some comments in the financial press to the effect that monetary policy--the Federal Reserve--is caught in a "box." It is argued that attempts to restrain the growth of the monetary aggregates will result in higher interest rates which, in turn, will stifle the economic expansion. On the other hand, it is argued, allowing the aggregates to continue to grow at excessive rates will lead to increased inflationary pressures.

When set up in this way, the choice seems exceptionally difficult since either result is undesirable. However, these extremes are not the only choices available--in spite of their appeal to the mdeia excited either about over-simplified solutions or desiring to stress confrontation. There is no such thing as a simple choice between unemployment and inflation, especially since greater inflation almost inevitably leads to greater unemployment.

THE EXCESSIVE RATE OF MONETARY EXPANSION MAY WELL BE MODERATED BY LESS VIGOROUS INTEREST RATE MOVES THAN PRESUMED IN THIS EXTREME ARGUMENT. IN ADDITION, THE IMPACTS ON LONGER-TERM RATES MAY BE MINIMAL BECAUSE INFLATIONARY EXPECTATIONS ARE REDUCED BY EFFORTS TO KEEP THE MONETARY AGGREGATES ON MORE MODERATE GROWTH PATHS. FURTHER, THERE ARE NO GOOD ECONOMIC REASONS FOR TAKING EXCESSIVELY STERN MOVES TOWARD MONETARY RESTRAINT; THAT IS, TO ATTEMPT TO OFFSET IMMEDIATELY THE "OVERSHOOT" IN MONETARY GROWTH. SOMEWHAT MORE GRADUAL OR JUDICIOUS EFFORTS WILL SERVE US FAR BETTER, NEITHER ADDING TO INFLATION NOR CONTRIBUTING TO CONDITIONS IN THE CREDIT MARKETS THAT MIGHT HARM PROSPECTS FOR SUSTAINED ECONOMIC RECOVERY.

SUCH A COURSE FOR MONETARY POLICY WOULD BE CONSISTENT WITH MODERATE CONTINUED ECONOMIC EXPANSION. HOWEVER, AS I INDICATED MUCH EARLIER, MONETARY POLICY DOES NOT STAND ALONE IN OUR ECONOMIC POLICY MIX. IT CANNOT OFFSET THE UNCERTAINTIES ARISING FROM OTHER AREAS, IT CANNOT SUBSTITUTE FOR SOUND ECONOMIC POLICIES ON ENERGY, TAXATION, ENVIRONMENT AND REGULATION OF ECONOMIC ACTIVITY. MONETARY POLICY IS AN IMPORTANT TOOL. IT CAN SUPPORT. IT CANNOT ALONE CREATE THE IDEAL ECONOMIC WORLD. THUS, IF WE ARE JUDICIOUS IN SETTING SOUND ECONOMIC POLICY OUTSIDE THE MONETARY SPHERE, WE SHOULD BE ABLE OVER THE YEARS AHEAD TO LET MONETARY POLICY LEND ITS FULL WEIGHT TO CONTINUED PROGRESS IN OUR FIGHT TO RETURN TO ECONOMIC STABILITY.