

REMARKS OF MR. ROBERT P. MAYO  
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TO THE FIXED INCOME GROUP OF THE  
INVESTMENT ANALYSTS SOCIETY OF CHICAGO  
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I AM PLEASED TO HAVE BEEN INVITED TO SPEAK TO YOU TODAY. AS THOSE OF YOU WHO KNOW ME ARE AWARE, I ALWAYS ENJOY MEETING WITH GROUPS SUCH AS THIS. BUT IT IS PARTICULARLY ENJOYABLE AT THIS TIME OF THE YEAR WHEN, ON BEHALF OF THE FEDERAL RESERVE BANK OF CHICAGO, I ALSO HAVE THE OPPORTUNITY TO WISH OUR FRIENDS IN THE FINANCIAL ARENA A JOYOUS HOLIDAY SEASON AND THE BEST FOR THE COMING YEAR.

LAST YEAR I RAN ACROSS AND CLIPPED AN OUTLOOK STATEMENT FROM ONE OF THE ADVISORY SERVICES THAT IS A PERFECT INTRODUCTION FOR MY REMARKS TODAY. THE STATEMENT READS "AT THIS JUNCTURE, THE BOND MARKET OUTLOOK FOR NEXT YEAR IS SUFFICIENTLY OBSCURED BY A HAZE OF UNCERTAINTIES AND UNRESOLVED PROBLEMS TO RENDER SPECIFIC PROGNOSTICATION TENTATIVE AT BEST. A TRULY UNQUANTIFIABLE NUMBER OF FORCES ARE AT WORK IN THE BACKGROUND FORMING THE CREDIT ENVIRONMENT."

I CLIPPED THE STATEMENT BECAUSE IT SEEMED TO EPITOMIZE THE PERFECT HEDGE FOR INTEREST RATE FORECASTERS. I HADN'T REALLY INTENDED TO USE IT BUT I COULDN'T RESIST BECAUSE IN ONE SWOOP IT GIVES ME THE BASIS FOR NOT MAKING SPECIFIC BOND MARKET FORECASTS TODAY, EMPHASIZES WHAT WE ALL KNOW SO WELL THAT UNQUANTIFIABLE ASPECTS ARE FREQUENTLY THE MOST IMPORTANT ELEMENTS IN THE OUTLOOK AND SUGGESTS A SIMILARITY, IN BROAD OUTLINE, IN FINANCIAL MARKET THINKING BETWEEN THE OUTLOOK FOR 1977 AND THE OUTLOOK FOR 1978.

I KNOW THAT IT IS DANGEROUS, IF NOT INAPPROPRIATE, TO PUT ALL FORECASTERS INTO THE SAME POT--ALTHOUGH SOME WOULD SAY THAT'S THE BEST PLACE FOR US, ESPECIALLY IF IT IS FILLED WITH BOILING OIL. BUT, AS I RECALL, THE EXPECTATION LATE IN 1976 WAS THAT THE BUSINESS UPTURN, IN SPITE OF A PRIOR

SLOWING, WOULD EXTEND WELL INTO 1977. THE SAME EXPECTATION IS HELD BY MANY FORECASTERS NOW AND IS ELABORATED IN MUCH THE SAME WAY; THAT IS, IN SPITE OF THE THIRD QUARTER SLOWING IN THE ECONOMIC ADVANCE, THE BASIC FORCES OF EXPANSION REMAIN INTACT AND THE ECONOMIC UPTURN SHOULD CONTINUE WELL INTO 1978.

CONCERN WAS EXPRESSED THEN ABOUT THE ABILITY OF CONSUMERS TO CONTINUE TO SUPPORT THE UPSWING. THE SAME COMMENTS ARE HEARD TODAY.

IN 1976 INVENTORIES SEEMED LEAN AND IT WAS EXPECTED THAT ACCUMULATION WOULD OCCUR AT A FASTER PACE IN 1977. AGAIN THERE IS A SIMILARITY.

IT WAS THOUGHT THAT GREATER STIMULUS WOULD BE COMING FROM PLANT AND EQUIPMENT SPENDING DURING 1977. THAT IS ALSO THE HOPE FOR 1978.

RESIDENTIAL HOUSING WAS EXPECTED TO EXPAND AT MODERATE RATES IN 1977. HOUSING DID SOMEWHAT BETTER THAN EXPECTED BUT MAINTENANCE OF MODERATE EXPANSION FOR 1978 IS STILL EXPECTED BY MANY.

THE FINANCING NEEDS OF MAJOR SECTORS IN THE ECONOMY WERE EXPECTED TO BE LARGE. THAT SEEMS TO BE THE VIEW FOR 1978 AS WELL.

FOR 1977, PRIVATE SHORT-TERM CREDIT DEMANDS WERE EXPECTED TO GROW. THE SAME FOR 1978 IN THE VIEW OF MANY FINANCIAL OBSERVERS.

CONSUMER BORROWING WAS NOT EXPECTED TO RISE MUCH ABOVE THE RELATIVELY HIGH LEVEL OF 1976. BUT IT DID AND NOW THE FORECASTS TEND TO BE STATED IN A SIMILAR MANNER; CONSUMER BORROWING MAY NOT RISE MUCH FROM ITS CURRENT HIGH LEVEL.

THE TREASURY WAS EXPECTED TO SEEK SUBSTANTIAL FUNDS IN THE MARKETS IN 1977. THE SAME EXPECTATION IS HELD FOR 1978.

ONE IS ALSO STRUCK BY THE SIMILARITIES IN THE UNCERTAINTIES ABOUT PUBLIC POLICY IN LATE 1976 AND NOW IN LATE 1977. THERE WAS UNCERTAINTY IN LATE 1976 AS TO THE THRUST OF THE NEW ADMINISTRATION'S ECONOMIC POLICIES. WHILE THE ADMINISTRATION IS NOT QUITE SO NEW ANY LONGER, IT'S POLICY THRUST IS STILL UNCERTAIN AND PERPLEXING TO MANY.

WOULD THERE BE AN EFFECTIVE ENERGY SOLUTION IN 1977? WILL THERE BE ONE IN 1978? HOW ABOUT TAX REFORM? TAX REDUCTION?

AS TO FED POLICY, THERE WAS SOME EXPECTATION OF A FIRMER STANCE BUT THE BETTING WAS ON ACCOMMODATION IN 1977. IF YOU WATCHED ONLY SHORT TERM INTEREST RATES YOU MIGHT CONCLUDE THAT FED POLICY WAS FIRMER THIS YEAR, BUT LOOKING AT THE MONETARY AGGREGATES AND CREDIT FLOWS YOU WOULD HAVE TO SAY THAT IT HAS BEEN ACCOMMODATIVE. WHAT ABOUT 1978? ON BALANCE I THINK THAT THE FINANCIAL MARKET OBSERVERS HAVE SIMILAR EXPECTATIONS FOR 1978, SOME LOOK FOR A FIRMER COURSE FOR MONETARY POLICY BUT THE MAJORITY APPEAR TO FEEL THAT IT WILL BE ACCOMMODATIVE.

THE GREAT NUMBER OF SIMILARITIES IN THE VIEWS ON THE OUTLOOK IN LATE 1976 AND LATE 1977 IS INTERESTING. AND IT IS TEMPTING TO STEP BACK AND SUGGEST THAT WE CAN SIMPLY ADJUST THE BASE NUMBERS AND EXTEND THE 1977 FORECAST INTO 1978. BUT WHILE EXPECTATIONS ARE THE SAME IT DOESN'T NECESSARILY FOLLOW THAT THE OUTCOME WILL BE THE SAME. AFTER ALL, WE ARE STARTING FROM A DIFFERENT BASE, A SOMEWHAT DIFFERENT ENVIRONMENT.

NEVERTHELESS, WHEN I LOOK AT THE DEVELOPMENTS IN A NUMBER OF SECTORS, SUCH AS EMPLOYMENT, PRODUCTION, RETAIL SALES, HOUSING, AND PLANT AND EQUIPMENT SPENDING, I SEE NO REASON FOR ARGUING THAT WE CANNOT ACHIEVE A CONTINUATION OF MODERATE ECONOMIC EXPANSION ON THROUGH 1978. WE ARE ENDING 1977 ON SOLID GROUND, WITH THE STATISTICS AND THE REPORTS FROM BUSINESSMEN ON THE FIRING LINE BELYING THE STATEMENTS OF PESSIMISM COMING FROM SOME QUARTERS.

THE PACE OF ACTIVITY IN THE FOURTH QUARTER IS PICKING UP FROM THE REDUCED THIRD QUARTER RATE—A RATE WHICH ON THE REVISED BASIS OF 4.7 PERCENT IN REAL GNP AT AN ANNUAL RATE IS QUITE RESPECTABLE. CONSUMER DEMAND CONTINUES TO BE STRONG AND AS YOU UNDOUBTEDLY NOTICED IN YESTERDAY'S REPORT, RETAIL SALES ARE POSTING VERY NICE GAINS. RESIDENTIAL CONSTRUCTION CAN ONLY BE

CHARACTERIZED AS ROBUST, WITH TOTAL HOUSING STARTS IN THE THIRD QUARTER AT THE HIGHEST RATE SINCE 1973. TOTAL EMPLOYMENT, AS YOU UNDOUBTEDLY KNOW, HAS BEEN RISING VERY RAPIDLY. THE ECONOMY HAS CREATED MORE THAN SEVEN MILLION NEW JOBS SINCE MARCH 1975--A TREMENDOUS PERFORMANCE. A LARGER PERCENTAGE OF OUR TOTAL POPULATION IS AT WORK TODAY THAN AT ANY PREVIOUS TIME IN OUR HISTORY. INDUSTRIAL PRODUCTION HAS CONTINUED TO INCREASE. INVENTORIES ARE IN GOOD BALANCE--PERHAPS EVEN LOW IN SOME RETAIL LINES. AND WHILE BUSINESS FIXED INVESTMENT ACTIVITY IS NOT ROBUST, IT CONTINUES TO SHOW GAINS WITH REPORTS SUGGESTING A CONTINUED ADVANCE IN THESE OUTLAYS.

I COULD, OF COURSE, GO INTO MUCH MORE DETAIL ON ALL OF THESE AREAS OF ACTIVITY. BUT I DON'T THINK THAT IS NECESSARY. EVEN A MORE DETAILED REVIEW WOULD SUGGEST THAT THE BUSINESS UPSWING IS STILL UNDERWAY, THAT WE WILL BE MOVING INTO 1978 WITH A GOOD HEAD OF STEAM AND, MOST IMPORTANTLY, THE FORCES FOR FURTHER EXPANSION REMAIN INTACT.

WITH THE EXCEPTION OF LESS THAN DESIRABLE RATES OF BUSINESS INVESTMENT SPENDING AND PROBLEMS IN THE AGRICULTURAL SECTOR ARISING FROM LOW FARM INCOMES THERE ARE NO IMBALANCES IN THE ECONOMY, AT LEAST NONE THAT ARE LIKELY TO "DO THE EXPANSION IN." I DON'T SEE THE DEVELOPMENTS IN STEEL, TV SETS OR EVEN THE SLUGGISHNESS IN AGRICULTURAL MACHINERY AS THE ACHILLES HEEL OF THE ECONOMIC ADVANCE.

NOR ARE THERE ANY DEVELOPMENTS IN THE FINANCIAL SECTOR THAT ARE FOREBODING AT THIS JUNCTURE. CREDIT IS READILY AVAILABLE AND ALTHOUGH SHORT TERM INTEREST RATES ARE UP, THERE IS NO RELUCTANCE TO LEND OR TO BORROW. SERIOUS DISINTERMEDIATION HAS NOT MATERIALIZED. RECENT REPORTS OF A DANGEROUS LIQUIDITY SQUEEZE ON COMMERCIAL BANKS THAT SENT THE STOCK MARKET INTO A TAILSPIN A WEEK AGO ARE JUST PLAIN WRONG. AS THE DEMAND FOR SHORT-TERM CREDIT FROM BANKS HAS INCREASED, A NORMAL DEVELOPMENT IN THE CYCLE WHICH, AS YOU RECALL, WAS DELAYED AND CAUSED SOME CONSTERNATION, BANKS HAVE RESPONDED IN A

NORMAL FASHION. THEY HAVE REDUCED TREASURY SECURITIES AND RELIED MORE HEAVILY ON MANAGED LIABILITIES SUCH AS LARGE DENOMINATION CDS. NOTHING IN THIS DEVELOPMENT SUGGESTS THAT BANKING LIQUIDITY HAS ENTERED A SERIOUS STAGE.

BUT I DON'T WANT MY OPTIMISTIC TONE ABOUT CURRENT AND PROSPECTIVE ECONOMIC DEVELOPMENTS TO LEAD YOU TO THE FEELING THAT I HAVE BECOME TOO POLLYANAISH OR OVERCOME WITH THE SPIRIT OF THE SEASON. THERE COULD BE PROBLEMS FOR THE ECONOMY IN LATE 1978. BUT IT SEEMS TO ME THAT THEY ARE NOT LIKELY TO COME FROM THE REAL ACTIVITY SECTORS OF THE ECONOMY. THEY ARE MORE LIKELY TO ARISE FROM THE PUBLIC POLICY ARENA.

I KNOW THAT SOME OF YOU MAY CONSIDER IT UNFAIR TO DISTINGUISH, FOR OUTLOOK PURPOSES, THE PRIVATE PRODUCTION-CONSUMPTION ECONOMY FROM PUBLIC POLICY. OBVIOUSLY PUBLIC POLICY, EVEN IF UNCERTAIN, PERMEATES ALL ECONOMIC DECISION MAKING. HOWEVER, IF I CAN FOR THE MOMENT USE THE ECONOMIST'S TRICK OF HOLDING EVERYTHING ELSE CONSTANT--IN THIS CASE PUBLIC POLICY ACTIONS OR IN-ACTIONS--I DON'T, AS I JUST ARGUED, SEE ANY REASON FOR THE EXPANSION TO FAIL ON THE BASIS ON IMBALANCES WITHIN THE PRIVATE SECTOR. THE MOMENTUM IS THERE AND LACKING ANY EXTERNAL SHOCKS SUCH AS THAT COMING FROM A SIGNIFICANT FURTHER OIL PRICE INCREASE, THE ECONOMY SHOULD PERFORM REASONABLY WELL THROUGH MUCH OF 1978.

BUT NEITHER DO I WANT TO GIVE THE IMPRESSION THAT I AM FORECASTING IMPROPER PUBLIC POLICY ACTIONS IN 1978 THAT WILL SERIOUSLY DAMAGE OUR FUTURE EXPANSION. THE DEBATE ON MANY OF THESE ELEMENTS FROM ENERGY TO THE TAX PROGRAM IS STILL GOING ON. I CAN, AS YOU CAN AS WELL, THINK OF PREFERRED SOLUTIONS TO THE ISSUES BUT I STILL REMAIN AS UNCERTAIN AS YOU ARE AS TO THE ACTUAL OUTCOME.

WE COULD, OF COURSE, PLAY THE "WHAT IF" GAME. BUT THERE ARE SO MANY PERMUTATIONS AND COMBINATIONS AND I WILL RESIST THE TEMPTATION. IN FACT, IT

MAY BE SUFFICIENT FOR LOOKING AT 1978 TO LUMP THE CONCEIVABLE PUBLIC POLICY ACTIONS TOGETHER AND ARGUE VERY SIMPLY. FIRST, THE IMPACT OF SUCH ACTIONS IS NOT LIKELY TO HAVE A SIGNIFICANT IMPACT ON THE COURSE OF THE ECONOMY FOR MUCH OF 1978. (BUT, OF COURSE, THEY WOULD IN THE YEARS BEYOND.) AND SECOND, CLARIFICATION OF POLICY THRUST--THE REMOVAL OF UNCERTAINTIES--COULD HAVE A FAVORABLE IMPACT ON ATTITUDES AND THUS THE ECONOMY'S PERFORMANCE.

IN EXPRESSING UNCERTAINTY ABOUT THE COURSE OF PUBLIC POLICY ACTIONS AND IMPACTS, THERE IS ONE AREA WHICH I IMPLICITLY IGNORED AND THAT IS, OBVIOUSLY, MONETARY POLICY. IN TERMS OF IMPACTS ON THE REAL SECTORS, MONETARY POLICY CLEARLY OPERATES WITH VARIABLE TIME LAGS AND HAS ALREADY DONE FOR GOOD OR ILL WHAT IT CAN FOR THE FIRST SIX TO NINE MONTHS OF 1978. BUT FOR THE FINANCIAL MARKETS GENERALLY, AND TO SOME EXTENT YOUR SEGMENT OF FIXED-INCOME MARKETS, FEDERAL RESERVE ACTIONS WILL HAVE A STRONG INFLUENCE ON DEVELOPMENTS.

I HAVE NO DIFFICULTY IN BEING CERTAIN ABOUT THE COURSE OF MONETARY POLICY. BUT MY CERTAINTY ABOUT POLICY MAY NOT SATISFY YOU BECAUSE IT ISN'T CERTAINTY IN TERMS OF THE PRECISE COURSE OF INTEREST RATES OR OF THE MONETARY AGGREGATES. IT RELATES INSTEAD TO THE GUIDING PRINCIPLES OF MONETARY POLICY AS I SEE THEM. FIRST, THE OBJECTIVE OF FEDERAL RESERVE POLICY IS THE PERFORMANCE OF THE ECONOMY--NOT ALLEGIANCE TO ANY INTERMEDIATE TARGET OF THE MONETARY AGGREGATES OR INTEREST RATES. SECOND, MONETARY POLICY MUST BE COUCHED IN TERMS OF ACHIEVING LONGER TERM PERFORMANCE GOALS IN PRICES, PRODUCTION AND EMPLOYMENT. IT MUST CAREFULLY CONSIDER SHORT-TERM OR EVEN YEARLY GAINS IN RELATION TO LONGER TERM COSTS.

IF TRANSLATION IS REQUIRED, THESE PRINCIPLES MEAN TO ME THAT NEITHER INTEREST RATES NOR THE MONETARY AGGREGATES WILL BE "PEGGED" IN 1978. FURTHER, THE LONG-TERM INFLATION COSTS GENERATED BY GREATER MONETARY POLICY EASE WILL HAVE TO BE SIGNIFICANTLY LESS THAN THE BENEFITS FROM SHORT-TERM IMPROVEMENT IN THE UNEMPLOYMENT RATE.

I THINK THAT MOST OF YOU ARE AWARE THAT THE MAJORITY PARTY MEMBERS OF THE SENATE BANKING COMMITTEE HAVE URGED THE FEDERAL RESERVE TO MAKE MONETARY POLICY IN SUCH A WAY AS TO INSURE A 5 PERCENT REAL GROWTH FOR THE ECONOMY IN 1978. THEY ARGUE THAT SUCH A POLICY WOULD HAVE NEGLIGIBLE IMPACTS IN PUSHING UP PRICES. SEVERAL COMMENTS ARE IN ORDER.

CHAIRMAN BURNS' TESTIMONY HAS INDICATED THAT AT THE MOMENT THE VIEW WITHIN THE SYSTEM IS THAT THE AGGREGATE PATHS ANNOUNCED FOR NEXT YEAR ARE ROUGHLY CONSISTENT WITH A 4 1/2 PERCENT INCREASE IN REAL GNP. THE ANNOUNCED PATHS MAY ALSO BE CONSISTENT WITH A 5 PERCENT GROWTH RATE. WHO KNOWS? THE RELATIONSHIP BETWEEN THE MONETARY AGGREGATES AND THE GROWTH IN REAL GNP IS SIMPLY NOT THAT PRECISE. THERE IS NO PROCESS EITHER BY INTEREST RATE OR MONETARY AGGREGATE TARGETING THAT WILL INSURE A PRECISE NUMBER. MONETARY POLICY IS POWERFUL, BUT NOT THAT POWERFUL.

THERE IS ALSO SOME QUESTION AS TO WHETHER MORE STIMULATIVE MONETARY POLICY WOULD LEAD TO REAL GAINS OR SIMPLY PRICE GAINS. BY ANY OVERALL MEASURE, MONEY OR RESERVES, OR FOR THAT MATTER CREDIT, MONETARY POLICY HAS BEEN STIMULATIVE DURING 1977--EXCESSIVELY SO IN THE MINDS OF MANY. IF HIGH RATES OF MONEY GROWTH STIMULATE ACTIVITY MORE THAN PRICES, THEN GIVEN THE RAPID RATE OF MONETARY GROWTH DURING THE FIRST TEN MONTHS OF THE YEAR, WE SHOULD GET A VERY FINE ECONOMIC PERFORMANCE DURING MUCH OF 1978. NO FURTHER STIMULUS IS REQUIRED.

THE MOST SERIOUS OBJECTION TO THE SENATE BANKING COMMITTEE'S URGING IS THAT MORE STIMULUS IS POSSIBLE WITH ONLY A NEGLIGIBLE IMPACT ON PRICES. THAT MAY BE TRUE FOR 1978, BUT I DOUBT IT. BUT WHAT ABOUT THE YEARS AHEAD? NO ONE CAN ACCUSE ME OF BEING EVEN A HALF-TIME MONETARIST, YET I MUST SAY THAT CONTINUED HIGH RATES OF MONEY GROWTH INEVITABLY DO LEAD TO HIGHER RATES OF INFLATION. THIS NATION IS FORTUNATELY BECOMING INCREASINGLY AWARE OF THE SIGNIFICANT COSTS OF INFLATION TO CONSUMERS AND TO BUSINESSES. HOPEFULLY

OUR PEOPLE WILL ALSO BECOME INCREASINGLY AWARE THAT THE SO-CALLED TRADE-OFF BETWEEN EMPLOYMENT AND PRICE INCREASES IS VERY WEAK AND THAT YOU BUY VERY LITTLE IN THE WAY OF EMPLOYMENT GAINS WITH SIZABLE PRICE RISES.

BUT LET ME CONCLUDE BY TRYING TO BE SOMEWHAT MORE SPECIFIC ABOUT THE COURSE OF MONETARY POLICY IN 1978. FROM MY STANDPOINT, I SEE POLICY AS ACCOMMODATIVE OF A CONTINUED MODERATE ADVANCE IN ECONOMIC ACTIVITY. AT THIS STAGE, THE ANNOUNCED MONETARY AGGREGATE PATHS OF 4 TO 6 1/2 PERCENT FOR M-1 AND 6 1/2 TO 9 PERCENT FOR M-2 FROM THE THIRD QUARTER OF 1977 TO THE THIRD QUARTER OF 1978 SEEM CONSISTENT WITH A 4 TO 5 PERCENT GAIN IN REAL GROWTH. GIVEN THE CURRENT CONDITIONS IN THE ECONOMY, AND OUR PAST RECORD, STRIVING FOR HIGHER AGGREGATE GROWTH RATES THAN THESE WOULD LEAD TO FURTHER EXASPERBATION OF OUR INFLATIONARY PRESSURES.

HOLDING CLOSE TO THESE RANGES IN AN ECONOMY WHICH HAS THE STRENGTH I PERCEIVE, MAY NOT BE EASY. THE SUBSTANTIAL CREDIT GROWTH THAT HAS ALREADY OCCURRED SO FAR IN THIS EXPANSION, HAS NATURALLY AND APPROPRIATELY LED TO HIGHER SHORT-TERM RATES. THOSE CREDIT DEMANDS ARE NOT LIKELY TO DISAPPEAR SOON. NOR DO WE WANT THEM TO IF WE HOPE TO CONTINUE OUR ECONOMIC ADVANCE. BUT CLEARLY THIS MEANS THAT ECONOMIC GROWTH WILL GENERATE FURTHER UPWARD PRESSURE ON INTEREST RATES IN THE YEAR AHEAD.

I HAVE NO DOUBT THAT THERE WILL CONTINUE TO BE CRITICISM OF OUR LETTING INTEREST RATES GO UP—OR INDEED "FORCING" THEM UP. TO THE EXTENT, HOWEVER, THAT THESE PRESSURES ON RATES ARISE FROM A CONTINUED ADVANCE IN ECONOMIC ACTIVITY AND RISING DEMANDS FOR CREDIT, THEY SHOULD NOT BE RESISTED BY A MORE ACCOMMODATIVE POSTURE. OUR EXPERIENCE SHOULD BE VERY CLEAR. SUCH EXPANSIONARY ACTIONS WILL TEND TO BE COUNTER-PRODUCTIVE, LEADING ULTIMATELY TO EVEN HIGHER SHORT AND LONG TERM RATES.

I AM ALSO WELL AWARE THAT RISING INTEREST RATES, EVEN THOUGH RESULTING FROM REAL ECONOMIC GROWTH RATHER THAN A GROWTH IN INFLATIONARY EXPECTATIONS,



WILL BECOME INCREASINGLY VISIBLE IN A SOCIETY IN WHICH THE STICKINESS OF THE UNEMPLOYMENT RATE AT 7 PERCENT OR JUST BELOW HAS BECOME OF INCREASING CONCERN. I AM NOT UNMINDFUL OF THE COST OF UNEMPLOYED HUMAN RESOURCES NOR UNSYMPATHETIC TO EFFORTS TO CORRECT THAT DIFFICULTY. BUT MEASURES OTHER THAN DEMAND MANAGEMENT OR EXCESSIVE MONETARY EASE MUST BE MUCH MORE HEAVILY RELIED ON IF WE ARE TO MAKE ANY PROGRESS ON UNEMPLOYMENT.

THAT, HOWEVER, IS ANOTHER SPEECH. FOR NOW LET ME CLOSE BY SIMPLY INDICATING THAT IT IS MY EXPECTATION, AT LEAST, THAT YOU WILL FIND MONETARY POLICY DURING 1978 TO BE SUPPORTIVE OF A CONTINUED ECONOMIC ADVANCE WHILE MAKING EVERY EFFORT TO MODERATE INFLATIONARY PRESSURES. IF OTHER POLICY-MAKERS CHART A SIMILAR COURSE, IT SHOULD BE A HAPPY NEW YEAR FOR US ALL.