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THE CHALLENGES FOR ECONOMIC POLICY

I APPRECIATE THE OPPORTUNITY TO SPEAK WITH YOU THIS EVENING ABOUT SOME OF THE PROBLEMS CONFRONTING ECONOMIC POLICYMAKING IN THE UNITED STATES. THE TOPIC, OBVIOUSLY, IS A VERY BROAD ONE, WITH MANY INTERESTING, CHALLENGING AND PERPLEXING DIMENSIONS. IT WOULD BE IMPOSSIBLE AND PRESUMPTUOUS FOR ONE INDIVIDUAL TO TRY TO COVER IT COMPLETELY. I SHALL NOT TRY.

I WOULD LIKE, THEREFORE, TO FOCUS ON ONLY A FEW IDEAS TONIGHT. FIRST, I WOULD LIKE TO DEVELOP SOME THOUGHTS WITH YOU ABOUT THE CHANGING NATURE OF THE ECONOMIC POLICY PROBLEM IN GENERAL. AND THEN I WOULD LIKE TO FOCUS MORE SPECIFICALLY ON THE CHALLENGES FOR MONETARY POLICY AND ITS ROLE IN THE CHANGING ECONOMIC POLICY ENVIRONMENT.

IT IS NOT DIFFICULT TO IDENTIFY THROUGH EVEN A CASUAL READING OF THE PRESS A LARGE NUMBER OF ECONOMIC PROBLEMS THAT CONFRONT OUR SOCIETY. INFLATION, UNEMPLOYMENT, ENERGY, AND THE DETERIORATION OF THE VALUE OF THE DOLLAR IN THE INTERNATIONAL MARKETS APPEAR TO TOP THE LIST AT THE MOMENT. CLOSE ON THE HEELS OF THESE, HOWEVER, ARE A HOST OF OTHER CONCERNS, SUCH AS TAX REFORMS, ENVIRONMENTAL PROTECTION, MINORITY EMPLOYMENT, AGRICULTURAL SUPPORT, INADEQUATE HOUSING, GOVERNMENT OVER-REGULATION, SOCIAL SECURITY, AND A WIDE RANGE OF INCOME MAINTENANCE ISSUES.

AFTER MANY YEARS OF POLITICAL ATTENTION, IT SEEMS PARADOXICAL THAT THE NUMBER AND THE IMPORTANCE OF THESE PROBLEMS HAS INCREASED DRAMATICALLY RATHER THAN DECLINED. THE INCREASED INTENSITY OF PUBLIC AND PRIVATE DISCUSSIONS SEEM TO GIVE AN IMPRESSION OF A SERIOUS DETERIORATION IN OUR ECONOMIC ENVIRONMENT. THE FACT IS, HOWEVER, THAT WE HAVE MADE TREMENDOUS ADVANCES IN THE ECONOMIC WELL-BEING OF A LARGE PROPORTION OF OUR CITIZENS. THE CORRECTION OF SOME PROBLEMS HAS,

OF COURSE, MEANT THAT OTHER PROBLEMS HIDDEN EARLIER HAVE EMERGED MUCH AS OUR MEDICAL PROGRESS IN COMBATING SOME SERIOUS DISEASES HAS BROUGHT OTHERS TO THE FORE AS MAJOR ILLNESSES. IN OTHER CASES THE SOLUTION OF ONE SET OF PROBLEMS HAS BEEN AT THE EXPENSE OF CREATING NEW PROBLEMS.

WHAT I SEE AS AN INTENSIFICATION OF CONCERN WITH ECONOMIC ISSUES IN RECENT YEARS SEEMS PARTICULARLY SURPRISING IN THE FACE OF THE RAPID ECONOMIC ADVANCE OVER THE LAST THREE YEARS. TAKING ONLY ONE MEASURE, THAT OF EMPLOYMENT--A REASONABLE PROXY FOR THE ECONOMY'S PERFORMANCE--WE HAVE SEEN SHARP GAINS SINCE THE MARCH 1975 LOW POINT OF THE LAST ECONOMIC DOWNTURN. TOTAL EMPLOYMENT HAS INCREASED BY 9 MILLION AND A LARGER PROPORTION OF OUR POPULATION THAN EVER BEFORE IS AT WORK. OTHER MEASURES ALSO SHOW SIGNIFICANT GAINS BUT ARE NOT AS IMPRESSIVE AS THE EMPLOYMENT NUMBERS.

A NUMBER OF REASONS CAN PROBABLY BE GIVEN FOR THE INCREASED DISSATISFACTION WITH OUR ECONOMIC ENVIRONMENT. I AM CONVINCED, FOR EXAMPLE, OF THE INFLUENCE OF OUR MASS COMMUNICATION FACILITIES, OUR GROWING SOCIAL CONSCIOUSNESS, AND A MORE ARTICULATE AND ACTIVE SOCIETY. A SOCIOLOGIST FRIEND OF MINE SPECULATES THAT MORE PEOPLE FEEL CLOSER TO MANY BROAD ECONOMIC PROBLEMS TODAY, MORE AFFECTED BY THEM THAN THEY DID A NUMBER OF YEARS AGO. CERTAINLY ALL OF US CAN IDENTIFY WITH INFLATION, TAXES, AND SOCIAL SECURITY PROBLEMS. BUT THE BIGGER ISSUES OF AGRICULTURE, ENERGY AND EVEN THE INTERNATIONAL TRADE DEFICIT, HAVE COME CLOSER TO MORE AND MORE PEOPLE IN OUR SOCIETY. NO LONGER ARE THESE PROBLEMS THAT MAY AFFECT SOMEONE ELSE. THEY AFFECT US AND OUR FAMILIES IN A VERY DIRECT WAY AND WE RECOGNIZE THIS.

IT HAS ALSO BEEN ARGUED, I THINK WITH A GREAT DEAL OF VALIDITY, THAT UNDERLYING THE INCREASED INTENSITY OF CONCERNS IS THE VIEW THAT OUR ECONOMY IS CAPABLE OF PRODUCING WHATEVER IS DESIRED UNDER ANY CIRCUMSTANCES. THIS, IT SEEMS TO ME, IS AN IMPORTANT AND FUNDAMENTAL POINT. IT REFLECTS AN ENORMOUS CONFIDENCE IN OUR

ECONOMIC MACHINE. IT HAS IMPORTANT IMPLICATIONS FOR PUBLIC ECONOMIC POLICY, IF THIS NOTION OF OUR ECONOMY IS CORRECT, ALL OF OUR ECONOMIC PROBLEMS CAN BE SOLVED IF ONLY OUR POLICYMAKERS APPLY THEMSELVES WITH SUFFICIENT SKILL AND INGENUITY TO THE SOLUTION OF THE PROBLEMS. THAT WE EXPERIENCE DIFFICULTIES NOW IS A REFLECTION, IN THIS VIEW, THAT WE HAVEN'T HARNESSSED OUR ECONOMIC ENGINE PROPERLY, THAT WE HAVE DEVIATED FROM THE PROPER POLICY PRESCRIPTIONS,

BECAUSE OF THIS ATTITUDE OF AN ALL POWERFUL ECONOMIC MACHINE CAPABLE OF PRODUCING ALMOST INFINITE QUANTITIES OF GOODS AND SERVICES, WE FREQUENTLY TALK ABOUT THE PROBLEMS CONFRONTING US AS CHALLENGES--AS OPPORTUNITIES. SOME TWENTY YEARS AGO AN OLD FRIEND OF MINE, ALLEN WALLIS, NOW CHANCELLOR OF THE UNIVERSITY OF ROCHESTER, MADE THE POINT THAT IT WAS CURIOUS THAT MOST OF OUR ECONOMIC DIFFICULTIES WERE VIEWED AS CHALLENGES. IN A REAL SENSE THEY SHOULD REALLY BE CONSIDERED AS THREATS, AS NEGATIVE ELEMENTS IN OUR SOCIETY. IT WAS HE WHO FIRST SUGGESTED TO ME THAT THE PUBLIC VIEWED DIFFICULTIES AS CHALLENGES BECAUSE THEY CONSIDERED THE ECONOMY TO BE CAPABLE OF UNBOUNDED PERFORMANCE,

I DON'T WANT TO GET INTO A MINOR SEMANTIC ARGUMENT AS TO WHETHER WE SHOULD CLASSIFY OUR PROBLEMS AS CHALLENGES OR THREATS. BUT I DO WANT TO EMPHASIZE THE POINT ABOUT PUBLIC ATTITUDES CONCERNING THE OMNIPOTENCE OF THE ECONOMY. CAN WE REALLY SATISFY EVERY INDIVIDUAL, EVERY GROUP, EVERY SECTOR OF OUR SOCIETY? PUTTING IT IN THIS BLUNT FASHION, IT IS IMMEDIATELY OBVIOUS THAT WE CAN'T. WE INDEED HAVE AN AMAZING ECONOMIC ENGINE. BUT EVEN THAT MACHINE HAS PERFORMANCE LIMITATIONS.

THE MORE COMMONLY EXPRESSED FORM OF THIS CONCEPT IS THAT OUR ASPIRATIONS MAY HAVE OUTSTRIPPED OUR ABILITY TO ACHIEVE THEM. TO ACCEPT THIS IS NOT TO TAKE A NEGATIVE VIEW OF THE FUTURE BUT SIMPLY TO RE-FOCUS ON THE BASIC DEFINITION OF ECONOMICS, THAT IS, ALLOCATING SCARCE RESOURCES TO MEET INSATIABLE DEMANDS. THIS IS THE CHALLENGE FOR ECONOMIC POLICYMAKING. WHILE IT MAY SEEM OBVIOUS THAT

THIS SAME CHALLENGE HAS ALWAYS EXISTED, IT IS ONLY RECENTLY THAT IT HAS, IN FACT, BECOME SUCH AN IMPORTANT PART OF THE POLICY FRAMEWORK. AND, UNFORTUNATELY, THERE ARE STILL MANY WHO DO NOT UNDERSTAND THIS FUNDAMENTAL CONCEPT, OR AT LEAST ACT AS THOUGH IT DID NOT EXIST.

IF WE TAKE A LONG-TERM VIEW OF PUBLIC ECONOMIC POLICY, WE CAN IDENTIFY VARIOUS POLICY ORIENTATIONS THROUGH THE YEARS. IN THE EARLIER PERIOD OF OUR NATION, GOVERNMENT POLICY WAS LARGELY DIRECTED TO THE STIMULATION OF ECONOMIC EXPANSION--ROADS, CANALS, RAILROADS. I WOULD CLASSIFY THIS PERIOD AS THAT OF STIMULATIVE ECONOMIC POLICY.

LATER, AFTER THE CIVIL WAR, THERE WAS A PROLIFERATION OF GOVERNMENT AGENCIES TO REGULATE MARKETS. THIS WAS AN ATTEMPT TO BRING ORDER WHERE COMPETITIVE PRESSURES THREATENED TO BANKRUPT AN INDUSTRY OR UNDERMINE THE RELIABILITY OF ITS PERFORMANCE. THIS WAS REGULATORY ECONOMIC POLICY.

IN THE NEW DEAL, GOVERNMENT POLICY WAS USED TO TRY TO BRING THE ECONOMY TO ACCEPTABLE LEVELS OF EMPLOYMENT, GROWTH AND WELFARE. THIS WAS THE PERIOD OF STABILIZATION ECONOMIC POLICY.

CONCERN WITH THE PROPER ALLOCATION OF RESOURCES WAS CERTAINLY AN IMPORTANT ASPECT OF ALL OF THESE POLICY PHASES. BUT THE FORCE OF POLICYMAKING WAS DIRECTED TOWARDS THE ACHIEVEMENT OF IDENTIFIABLE GOALS WITHOUT EXPLICIT OR IMPLICIT CONCERN WITH A SCARCITY OF TOTAL RESOURCES. THESE POLICY PHASES WERE ALL CONSISTENT WITH A VIEW OF AN ECONOMY THAT WAS UNCONSTRAINED. THE CHALLENGE FOR POLICYMAKERS WAS TO MOVE THE PROPER LEVERS AND MAKE THE PROPER ADJUSTMENTS WITHOUT SIGNIFICANT REGARD TO THE ATTAINMENT OF ALL OF THE GOALS SIMULTANEOUSLY. CERTAINLY, THERE WAS CONCERN IN THE STABILIZATION PHASE OF ECONOMIC POLICY THAT DEMANDS ON THE ECONOMY COULD BE EXCESSIVE RESULTING IN INFLATIONARY PRESSURES. BUT THERE WAS, IN MY VIEW, A RELAXED ASSUMPTION THAT CONSTRAINING ACTIVITY TO "FULL EMPLOYMENT" AT STABLE PRICES WOULD STILL ALLOW US TO MEET OTHER GOALS IN

SUCH AREAS AS APPROPRIATE INCOME DISTRIBUTION AND WELFARE.

I REALIZE THAT I AM TAKING A RATHER EXTREME VIEW OF STABILIZATION POLICY-
MAKING. NOT ALL ECONOMISTS OR POLICYMAKERS HELD THIS VIEW. BUT IN TERMS OF
THE ACTIONS AND DECISIONS MADE ON PUBLIC POLICY THIS, MORE FREQUENTLY THAN NOT,
APPEARS TO BE A CONSISTENT HYPOTHESIS. PUBLIC POLICY WAS OPERATED AND STILL
IS TO SOME EXTENT BY A MANIPULATION OF AGGREGATE DEMAND WITH AN IMPLICIT AND NAIVE
VIEW THAT "FULL EMPLOYMENT" WILL MEET ALL OF OUR ECONOMIC NEEDS.

BUT THIS VIEW HAS BEEN CHANGING. MORE AND MORE WE ARE BEGINNING TO
RECOGNIZE THAT BROAD AGGREGATE DEMAND POLICIES CANNOT MEET OUR NEEDS. THERE
ARE SEGMENTS OF OUR SOCIETY FOR WHICH OTHER APPROACHES SEEM MORE APPROPRIATE.
AND EVEN MORE SHAKING TO THE CONCEPT OF THE OMNIPOTENT ECONOMIC MACHINE IS THE
REALIZATION THAT THERE ARE SUPPLY CONSTRAINTS--THAT RESOURCES ARE SCARCE.

THE MOST OBVIOUS AND RECENT EXAMPLE HAS BEEN THAT OF OIL. IT IS ONE OF
THE clearest evidences of the limitations on AMERICAN AFFLUENCE. FOREIGN OIL
NOW SUPPLIES 40 PERCENT OF DOMESTIC DEMAND. A MAJOR ENERGY SOURCE WHICH HAD
HELPED TO BUILD A GREAT ECONOMY IS NO LONGER "CHEAP."

SIMILARLY, THE SOURCES OF RAW MATERIALS OF VIRTUALLY ALL TYPES ARE IN-
CREASINGLY DIFFICULT TO EXPLOIT AND, THEREFORE, MORE EXPENSIVE. THE RICHEST
KNOWN DEPOSITS HAVE BEEN EXHAUSTED; THE INCENTIVES TO EXPLORE FOR MORE SOURCES
HAVE BEEN SEVERELY BLUNTED.

WE ARE NOW MOVING INTO A NEW PHASE OF ECONOMIC POLICY--A PHASE THAT I
WOULD CALL "CHOICE ECONOMIC POLICY." THIS PHASE IS CHARACTERIZED BY THE REALIZA-
TION THAT SUPPLY CONSTRAINTS EXIST AND THAT WE MUST THEREFORE CHOOSE MORE
CAREFULLY THE TYPES AND LEVELS OF ECONOMIC BENEFITS WE HOPE TO ACHIEVE FROM
OUR ECONOMY. THE SIZE OF THE PIE IS NO LONGER GROWING AS FAST AS WE WOULD LIKE.
AS A RESULT, ARGUMENTS OVER THE APPROPRIATE SIZE OF EACH SLICE BECOME MUCH MORE
FIERCE.

WE HAVE NOT YET LEARNED HOW TO MAKE THESE CHOICES IN A CONSTRAINED ENVIRONMENT. SEVERE DISAGREEMENTS ERUPT ABOUT THE RELATIVE IMPORTANCE OF VARIOUS OBJECTIVES AND THE APPROPRIATE TACTICS. AND DIFFERENCES ABOUT STRATEGIES FOR ECONOMIC POLICIES BECOME POLITICAL CONFLICTS. WITH OUR MASS MEDIA TRYING TO "EDUCATE" EVERYBODY ABOUT "EVERYTHING," PARTIALLY INFORMED OR MISINFORMED PUBLIC DEBATE CREATES NEW WAVES OF CONFUSION.

BUT WE ARE BEGINNING TO DEVELOP A POLICY MODE CONSISTENT WITH "CHOICE" ECONOMICS. WHEN I WAS DIRECTOR OF THE BUREAU OF THE BUDGET IN 1969-70, WE MADE THE FIRST ATTEMPT TO DISPLAY IN THE FEDERAL BUDGET ITSELF THE PRIORITIES OVER THE 5 YEARS AHEAD WITHIN THE FEDERAL GOVERNMENT ITSELF, EMPHASIZING THE SHORTAGE OF RESOURCES RELATIVE TO CLAIMS AND THE ALLOCATIVE IMPACTS OF ALTERNATIVE DECISIONS. THIS IS THE TYPE OF MATERIAL THAT MUST BE AVAILABLE AND EXPANDED IF WE ARE TO MAKE THE "BEST" PUBLIC POLICY DECISIONS.

MORE RECENTLY, THE NEW BUDGET PROCEDURES IN WASHINGTON ON THE LEGISLATIVE SIDE HAVE BEEN INSTITUTED. THE CONGRESSIONAL BUDGET OFFICE PROVIDES A PROCEDURE TO IMPROVE THE FEDERAL GOVERNMENT'S APPROACH TO PLANNING NATIONAL PRIORITIES. IN ITS MOST IDEAL FORM, THE PROCESS WOULD HAVE A "CHOICE" ECONOMICS ORIENTATION, CONSTRAINING THE TOTALS TO AVAILABLE RESOURCES ON THE BASIS OF PRIORITIES SET BY A DEMOCRATIC PROCESS. AFTER ALL, THE PRESIDENT'S BUDGET IS ONLY HIS OWN PLAN ON BEHALF OF THE EXECUTIVE BRANCH OF GOVERNMENT. IT IS THE CONGRESS THAT APPROVES IT OR TEARS IT APART.

I CAN MAKE NO CASE FOR ARGUING THAT THE PUBLIC POLICY CHOICES ON RESOURCE ALLOCATION ARE EASY, OR THAT THEY EVER WILL BE. THEY ARE EXTREMELY DIFFICULT AND WILL ALWAYS LEAVE MORE PEOPLE DISSATISFIED THAN HAPPY. AND THEY HAVE BECOME INCREASINGLY COMPLICATED AS VARIOUS GROUPS PRESS, OFTEN ZEALOUSLY AND BLINDING, FOR OTHER BENEFITS RELATING TO THE QUALITY OF LIFE SUCH AS ENVIRONMENTAL CONSIDERATIONS OR EXTREME FORMS OF REGULATION, OFTEN POSING UNDER THE FLAG OF SAFETY, CONSUMER PROTECTION OR OPENNESS IN GOVERNMENT. THESE OBJECTIVES UTILIZE SCARCE RESOURCES TOO, FREQUENTLY BY PUTTING ADDITIONAL CONSTRAINTS

ON OUR SUPPLY OF RESOURCES. BUT THESE OBJECTIVES HAVE NO REALISTIC ESTIMATE OF COSTS--DOLLARS OR RESOURCES--ATTACHED TO THEM. HOW DOES ONE PROCEED TO PUT INTO THE CHOICE FRAMEWORK REQUIREMENTS ON HEALTH AND SAFETY OR REDUCED POLLUTION THAT REDUCE THE SUPPLY OF GOODS OR SERVICES? NEVERTHELESS, THIS IS THE PROBLEM THAT PUBLIC ECONOMIC POLICY MUST WRESTLE WITH.

BUT LET ME TURN NOW TO MONETARY POLICY. THAT IS, AFTER ALL, THE POLICY AREA WITH WHICH I AM NOW MOST DIRECTLY CONCERNED. WHAT DOES THE CHANGING ORIENTATION OF ECONOMIC POLICY--THE MOVE TO "CHOICE" ECONOMIC POLICY, IN MY TERMS--MEAN FOR MONETARY POLICY.

MONETARY POLICY IS ESSENTIALLY A PART OF THE TRADITION OF AGGREGATE DEMAND POLICY. ITS ROLE IS TO PROVIDE THE LUBRICANT FOR THE TRANSFORMATION AND TRANSFER OF MATERIAL, GOODS AND SERVICES. IN TRADITIONAL TERMS, ITS ROLE IS TO PROVIDE THE PROPER AMOUNT OF MONEY AND CREDIT APPROPRIATE TO MAINTAIN FULL EMPLOYMENT OF OUR RESOURCES--NOT SO MUCH AS TO CREATE INFLATIONARY PRESSURES AND NOT SO LITTLE SO AS TO STIFLE THE ADVANCE OF THE ECONOMY. EVEN IN STRICT MONETARIST TERMS, MAINTAINING A CONSTANT RATE OF MONEY GROWTH IS CONSIDERED DESIRABLE SO AS NOT TO ADD A DESTABILIZING INFLUENCE TO THE ECONOMY. NEITHER VIEW PRESUMES THAT THERE ARE NO OTHER FORCES AFFECTING THE ECONOMY. BOTH IMPLICITLY CONCEIVE OF MONETARY POLICY AS A BROAD TOOL AND AGREE THAT IT IS NOT DESIGNED TO FOCUS ON SPECIFIC SECTORS OR SPECIFIC ECONOMIC PROBLEMS.

WE ARE KEENLY AWARE THAT MONETARY POLICY HAS DIFFERENT IMPACTS ON DIFFERENT SECTORS OF THE ECONOMY. IN LARGE PART, THIS OCCURS BECAUSE WE AS A NATION HAVE BUILT IN CONSTRAINTS OVER THE YEARS TO ADVANTAGE OR PROTECT CERTAIN SECTORS OF THE ECONOMY. THESE MIGHT BE VIEWED AS "CHOICE" DECISIONS, BUT THEIR EXISTENCE DOES NOT DESTROY THE BASIC CONTENTION THAT MONETARY POLICY IS ESSENTIALLY AN AGGREGATE POLICY INSTRUMENT.

I SEE NO IMPORTANT REASON FOR NOT BEING ABLE TO RETAIN AN AGGREGATE POLICY

TOOL IN AN ENVIRONMENT REQUIRING "CHOICE" OF NEEDS TO BE MET. AND AT THE SAME TIME I WILL ARGUE VIGOROUSLY AGAINST EFFORTS TO CONVERT IT TO A SPECIALIZED INSTRUMENT. MONETARY POLICY SHOULD NOT MAKE JUDGMENTS ON THE ALLOCATION OF RESOURCES. IT SHOULD NOT TRY TO PLAY DICTATOR. THERE ARE OTHER ROLES WHICH IT CAN MORE EFFECTIVELY PLAY.

AT THE PRESENT TIME, INFLATION IS ONE OF THE MORE SERIOUS PROBLEMS CONFRONTING OUR SOCIETY. THE CENTRAL BANK IS WELL EQUIPPED TO PLAY AN IMPORTANT ROLE IN THAT DRAMA CALLED "THE FIGHT AGAINST INFLATION." BUT IT CANNOT AND NEVER SHOULD NOT BE THE ONLY ACTOR ON THE STAGE.

THIS STATEMENT THAT MONETARY POLICY SHOULD NOT BE THE SOLE FIGHTER AGAINST INFLATION IS FREQUENTLY DISPUTED BY MY MONETARIST FRIENDS ON THE GROUNDS THAT INFLATION IS STRICTLY A MONETARY PHENOMENON. I AGREE THAT IT IS IN THE LONG RUN. BUT IT TAKES A BIG AND INAPPROPRIATE JUMP IN LOGIC TO ARGUE THAT BECAUSE INFLATION IS A MONETARY PHENOMENON, MONETARY POLICY HAS THE SOLE RESPONSIBILITY FOR PRICE STABILITY. MY OPPOSITION TO THIS VIEW IS SIMPLE, DIRECT AND I THINK CONSISTENT WITH A "CHOICE" ECONOMIC POLICY. IF MONETARY POLICY IS THE SOLE FIGHTER AGAINST INFLATION, IT ALSO BECOMES THE ULTIMATE ALLOCATOR OF RESOURCES. IT, IN EFFECT, MAKES THE CHOICE AS TO SPENDING BETWEEN GOVERNMENT AND THE PRIVATE SECTOR. IT, IN EFFECT MAKES THE CHOICES WITHIN THE PRIVATE SECTOR TO THE EXTENT THAT THERE ARE SOME DIFFERENTIAL IMPACTS OF MONETARY POLICY. IT IS A USURPER OF POWER IF THAT HAPPENS.

IT ISN'T AT ALL STRANGE, THEREFORE, TO HEAR THOSE OF US INVOLVED IN MONETARY POLICY EXPRESSING CONCERN WITH THE FEDERAL BUDGET DEFICIT. IT ISN'T A "COP OUT" AS SOME SUGGEST. I DON'T TRY TO EXCUSE AN UNWARRANTED INCREASE IN MONEY BY BLAMING IT ON SOMEONE ELSE. I AM ACCEPTING THE FACT THAT THE RESPONSIBILITY FOR ECONOMIC CHOICES IS NOT IN THE HANDS OF THE MONETARY POLICY AUTHORITIES, NOR SHOULD IT BE. IT IS IN THE HANDS OF THE PRIVATE ECONOMY AND THE GOVERNMENT

SPENDERS AND TAXERS. MONETARY POLICY CAN AND DOES ATTEMPT TO MODERATE EXCESSES, BUT IT CANNOT APPROPRIATELY FULLY OFFSET THOSE EXCESSES WITHOUT TAKING ON THE RESPONSIBILITY FOR OFFSETTING, IN PART, THE PRIORITY DECISIONS MADE BY THE SOCIETIES ELECTED REPRESENTATIVES. WE CAN STOP INFLATION DEAD IN ITS TRACKS IF WE WANT TO PRECIPITATE THE GREATEST DEPRESSION AND SOCIAL UNREST IN OUR HISTORY, BUT DON'T WORRY. WE WON'T.

IT WOULD, INDEED, BE A SETBACK FOR EFFECTIVE PUBLIC POLICY IF IN THE INCREASED CONCERN WITH INFLATION WE WERE TO TURN TO THE VIEW THAT IT IS ONLY THE FED'S ROLE TO FIGHT INFLATION. I KNOW THAT THE SUPPORT FOR THIS VIEW IS STRONG. BUT I HOPE THAT WE WILL GRADUALLY BEGIN AS A SOCIETY TO UNDERSTAND WHAT IT MEANS TO LIVE IN A SOCIETY WHERE HARD CHOICES MUST BE MADE. WE MUST LEARN TO DEVELOP AN EFFECTIVE POLITICAL STRUCTURE IN WHICH WE CAN ALL PARTICIPATE IN MAKING THOSE DECISIONS.