

REMARKS OF MR. ROBERT P. MAYO
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FINANCIAL ANALYSTS SOCIETY, DETROIT CHAPTER
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I AM PLEASED TO HAVE BEEN INVITED TO SHARE THIS VERY PLEASANT EVENING WITH YOU. I'VE GREATLY ENJOYED THE OPPORTUNITY TO GREET SOME OLD FRIENDS AND MAKE SOME NEW ONES. IN SUCH AMIABLE COMPANY AND ATTRACTIVE SURROUNDINGS IT SEEMS ALMOST A SHAME TO RISK DAMAGING THE SPIRIT OF THE OCCASION WITH A TALK ON WEIGHTY ECONOMIC ISSUES. I'VE NOTICED, AS I'M SURE YOU HAVE, THAT FACES TAKE ON A SERIOUS LOOK WHEN THE CONVERSATION TURNS TO INFLATION, THE VALUE OF THE DOLLAR IN INTERNATIONAL MARKETS, TAXES, GOVERNMENT REGULATION AND SIMILAR PROBLEMS. THESE ARE SERIOUS ISSUES. BUT SERIOUSNESS NEED NOT BE EQUATED WITH GLOOM. AND WHILE DEALING WITH SERIOUS SUBJECTS TONIGHT, I DON'T INTEND TO BE GLOOMY.

CERTAINLY ECONOMIC PROBLEMS EXIST IN ABUNDANCE IN OUR SOCIETY. WE ARE SUFFERING FROM INFLATION AND OVERREGULATION. POCKETS OF POVERTY STILL EXIST. ECONOMIC OPPORTUNITIES ARE STILL FORECLOSED UNNECESSARILY. AND THERE ARE MANY OTHER PROBLEMS. ALL ARE REAL. MANY ARE IMPORTANT. SOME ARE URGENT. BUT WE CAN TACKLE THESE PROBLEMS WITH MORE CONFIDENCE AND MORE ZEST, IF WE DO NOT CONFUSE LACK OF PERFECTION WITH A LACK OF PROGRESS OR WITH AN ATTITUDE THAT WE ARE SECOND RATE.

WE HAVE MADE PROGRESS. WE ARE NOT SECOND RATE. NONE OF US SHOULD FORGET NOR SHOULD WE BE SHY ABOUT STATING THAT WE LIVE IN AN ECONOMIC SOCIETY OF TREMENDOUS STRENGTH AND VITALITY. WE HAVE ACHIEVED A LEVEL OF MATERIAL WELL-BEING UNDREAMED OF EARLIER AND STILL ONLY DREAMED OF TODAY IN 90 PERCENT OF THE WORLD. AND THIS HIGH LEVEL IS STILL RISING. BUT EVEN MORE SIGNIFICANT THAN THE DIRECT MATERIAL GAINS HAVE BEEN THE OPPORTUNITIES THAT HAVE BEEN PROVIDED BY ECONOMIC GROWTH FOR THE LEISURE TIME TO ENJOY THE FRUITS OF OUR EFFORTS AND TO ENGAGE MORE FULLY IN A RICHER VARIETY OF CULTURAL AND

RECREATIONAL PURSUITS. OUR ECONOMIC PERFORMANCE HAS PROVIDED NEW DIMENSIONS OF INDIVIDUAL DIGNITY AND ENDEAVOR. AND IN SPITE OF OUR PERSONAL AND BUSINESS DIFFERENCES WITH THE ECONOMIC POLICIES OF OUR ELECTED REPRESENTATIVES IN THE CONGRESS AND SUCCESSIVE RESIDENTS OF THE WHITE HOUSE, WE STILL SUPPORT WITH VIGOR AND CONVICTION THE POLITICAL AND ECONOMIC STRUCTURE WITHIN WHICH WE LIVE.

I DON'T EMPHASIZE THE REMARKABLE STORY OF AMERICA'S ECONOMIC GROWTH BECAUSE I SOMEHOW FEEL YOU DON'T UNDERSTAND OR SUPPORT THIS VIEW. I KNOW YOU DO. AND I DON'T EMPHASIZE THIS PROGRESS THAT IS UNIQUE IN HISTORY IN THE SPIRIT OF SMUG SELF-CONGRATULATION. NOR DO I, IN A SPURT OF EXCESSIVE CONFIDENCE, FEEL THAT THIS IS A NATURAL AND INDESTRUCTIBLE STATE OF AFFAIRS THAT OBTVIATES ANY NEED TO ADDRESS THESE PROBLEMS--THAT THEY WILL SOMEHOW BE SOLVED WITHOUT OUR ACTION.

I EMPHASIZE OUR STORY OF SUCCESS BECAUSE IT IS INDICATIVE OF HOW MUCH WE CAN ACHIEVE IF WE PURSUE WISE POLICIES FOR PERSERVING AND CULTIVATING THE FORCES OF PROGRESS. AND THAT LEADS ME TO MY TOPIC FOR TONIGHT--ECONOMIC POLICYMAKING IN THE UNITED STATES. THAT, OBVIOUSLY, IS A BROAD BUT INTERESTING AND CHALLENGING TOPIC. IS IT FAR TOO BROAD AND HEAVY FOR SUCH A FINE EVENING? I HOPE NOT. BUT I THINK THAT THERE ARE A FEW THINGS THAT MIGHT BE SAID AND SHOULD BE SAID.

I HAVE HAD THE OPPORTUNITY, OVER MANY YEARS, TO HAVE BEEN INVOLVED IN ONE WAY OR ANOTHER WITH MOST SIDES OF THE ECONOMIC POLICY PROCESS. AT THE TREASURY AND AS DIRECTOR OF THE BUREAU OF THE BUDGET IN GOVERNMENT'S SPENDING AND TAXING DECISIONS. NOW AT THE FED IN THE DECISIONS WHICH INFLUENCE THE AMOUNT OF MONEY AND CREDIT IN THE ECONOMY. IN THOSE YEARS I HAVE SEEN GOOD ECONOMIC POLICIES MADE AND IMPLEMENTED. I HAVE SEEN BAD ECONOMIC POLICIES MADE AND IMPLEMENTED. I HAVE BEEN ON BOTH THE GIVING AND RECEIVING END OF CRITICISM ABOUT ECONOMIC POLICY. NEITHER I NOR OTHER POLICYMAKERS FIND

CRITICISM DISTURBING—UNCOMFORTABLE PERHAPS, BUT NECESSARY AND FRUITFUL IN THE FRAMING OF ECONOMIC POLICY IN A DEMOCRATIC SOCIETY. BUT I HAVE NEVER KNOWN ECONOMIC POLICY TO BE OTHER THAN WELL-INTENTIONED. IN PROSPECT OR IN ACTION, SOME POLICIES ARE, IN MY VIEW, MISGUIDED, INCORRECT BECAUSE OF A FAULTY INTERPRETATION OF THE FACTS, NOT COGNIZANT OF THE SIDE EFFECTS OR DIFFERING FROM MY VALUE JUDGMENTS ABOUT NEED OR IMPORTANCE. BUT STILL THEY REPRESENT AN HONEST EFFORT TO ACHIEVE GREATER WELL-BEING FOR OUR CITIZENS.

THE THING THAT STANDS OUT IN MY EXPERIENCE, HOWEVER, IS NOT THE CRITICISM OR THE WRANGLING ABOUT APPROPRIATE ECONOMIC POLICIES OR THE DISAGREEMENTS ABOUT THE LIKELY PERFORMANCE OF A PROGRAM. IT IS SOMETHING THAT IS ALMOST DECEPTIVELY SIMPLE ABOUT OUR ATTITUDES TOWARD ECONOMIC POLICY AND POLICYMAKERS IN THIS COUNTRY. AND THAT IS THE GREAT DEMANDS ON AND AT THE SAME TIME THE GREAT FAITH PLACED IN ECONOMIC POLICYMAKERS IN THIS SOCIETY. WE EXPECT FAR TOO MUCH OF THEM!

WE EXPECT TOO MUCH FROM THE POLICYMAKERS BECAUSE WE EXPECT TOO MUCH OF THE ECONOMY. WE HAVE SUCH AN ENORMOUS CONFIDENCE IN OUR ECONOMIC MACHINE THAT WE BELIEVE THAT IF POLICYMAKERS IN GOVERNMENT WOULD ONLY APPLY THEMSELVES WITH SUFFICIENT SKILL AND INGENUITY TO THE SOLUTION OF PROBLEMS, THEN ALL THE PROBLEMS WILL BE SOLVED. WHEN WE EXPERIENCE DIFFICULTIES, WE CONCLUDE THAT WE HAVEN'T HARNESSSED OUR ECONOMIC ENGINE PROPERLY.

WE INDEED HAVE AN AMAZING ECONOMIC ENGINE. BUT CAN WE REALLY SATISFY EVERY INDIVIDUAL, EVERY GROUP, EVERY SECTOR OF OUR SOCIETY? AND CAN THE ENGINE PROVIDE FOR INSTANT GRATIFICATION OF ALL? OF COURSE NOT. OBVIOUSLY, IT CAN'T. EVEN OUR MARVELOUS ECONOMIC MACHINE HAS PERFORMANCE LIMITATIONS. AND IF THE PUBLIC, THROUGH ITS ELECTED REPRESENTATIVES, ASKS THE POLICYMAKER TO CONCOCT THE PROPER SETTING TO ACHIEVE EVERYTHING AT ONCE, THE PUBLIC HAS ASSIGNED HIM AN IMPOSSIBLE TASK. DISILLUSIONMENT IS INEVITABLE.

THE TENDENCY FOR ASPIRATIONS TO OUTSTRIP THE ABILITY TO ACHIEVE THEM ISN'T A NEW PROBLEM FOR INDIVIDUALS OR FOR GOVERNMENTS. BUT IT HAS TAKEN ON ADDED SERIOUSNESS IN RECENT YEARS. FOR MUCH OF OUR HISTORY AS A NATION, THE CONSTRAINTS UPON OUR GROWTH--THE SCARCITY OF RESOURCES TO PRODUCE GOODS AND SERVICES--SEEMED UNIMPORTANT. RESOURCE LIMITATIONS HAMPERED US ONLY FOR SHORT PERIODS OF TIME WHEN, FOR EXAMPLE, THERE WAS A CROP FAILURE. OR WE WERE FORCED TO SHEPHERD OUR RESOURCES CAREFULLY FOR SOMEWHAT LONGER PERIODS DURING MAJOR WARS. BUT IN THE LATTER CASE, THE PUBLIC GOAL WAS CLEAR AND THE APPROPRIATE ALLOCATION OF RESOURCES WAS CLEAR--TO WIN THE WAR.

BUT THE CONCERN WITH LIMITATIONS TO OUR RESOURCES AND, THUS, OUR ABILITY TO MEET EVERY NEED WAS NOT PROMINENT EVEN AS RECENTLY AS THE MID-SIXTIES. IT WAS OBVIOUS IN THE "GUNS" AND "BUTTER" APPROACH TAKEN DURING THE VIETNAM WAR AND THE "GREAT SOCIETY" DAYS, THAT MAJORITY PUBLIC OPINION AND MANY POLICYMAKERS BELIEVED THAT WE HAD FEW CONSTRAINTS.

THE UNMISTAKABLE SIGNS OF THE SURGE OF PUBLIC EXPECTATIONS TO OUTFRONT REALITIES BEGAN TO EMERGE WITH FORCE IN THE LATE 60'S. PRICES BEGAN TO RISE. BUT SEEMINGLY UNDAUNTED WE MOVED AHEAD AS A SOCIETY TO IMPROVE THE QUALITY OF LIFE. EXAGGERATED ENVIRONMENTAL CONSIDERATIONS OR EXTREME FORMS OF REGULATION--OFTEN POSING UNDER THE FLAG OF SAFETY, CONSUMER PROTECTION, OR OPENNESS IN GOVERNMENT--EMERGED. THESE "NEEDS" OR OBJECTIVES UTILIZE SCARCE RESOURCES TOO AND FREQUENTLY ALSO PUT ADDITIONAL CONSTRAINTS ON THE SUPPLY OF RESOURCES. HOW MUCH OF THE MASSIVE NEW INVESTMENT BY AUTO COMPANIES WILL BE FOR NEW CAPACITY? HOW MUCH TO MEET FEDERAL REQUIREMENTS? VERY LITTLE TO EXPAND OUR SUPPLY OF PHYSICAL CAPITAL, I'M AFRAID. THESE "QUALITY" OBJECTIVES HAVE PRICE TAGS TOO. BUT FEW OF THESE COSTS HAVE EVER BEEN COMPUTED, LET ALONE PLACED IN THE PUBLIC ARENA WITH SOMEONE ASKING, "IS IT WORTH THE COST; WHAT WILL YOU BE WILLING TO GIVE UP?"

AND WHILE WE HAVE ADDED TO OUR SHOPPING LIST, OUR SUPPLY OF RESOURCES HAS BEEN GROWING LESS RAPIDLY. THE MOST OBVIOUS 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 MANY RAW MATERIALS ARE INCREASINGLY DIFFICULT TO FIND AND, THEREFORE, MORE EXPENSIVE. THE RICHEST KNOWN DEPOSITS HAVE BEEN EXHAUSTED. THE INCENTIVES TO EXPLORE FOR MORE SOURCES HAVE BEEN SEVERELY BLUNTED—OUR EXPENDITURES ON RESEARCH AND DEVELOPMENT ARE LAGGING BADLY.

MANY OF US RECOGNIZE THE NEED FOR MAKING CHOICES IN HOW WE UTILIZE OUR SCARCE RESOURCES. BUT, SADLY, MANY OTHERS DO NOT. AND THAT IS A VERY SERIOUS MATTER NOT ONLY FOR OUR ECONOMIC STABILITY BUT ALSO FOR OUR POLITICAL STABILITY. IF LARGE SEGMENTS OF OUR SOCIETY FAIL TO RECOGNIZE THAT AVAILABLE ECONOMIC RESOURCES FORM A CONSTRAINT UPON NATIONAL ABILITIES TO MEET OUR GOALS THE GAP BETWEEN EXPECTATIONS AND REALITIES WILL GROW WIDER AND WIDER. THE WIDER THE GAP, THE GREATER THE PUBLIC WAILING, THE GREATER THE DEMANDS FOR GOVERNMENT ACTION, THE MORE INTENSE THE DEBATE AND THE GREATER THE LIKELIHOOD OF INEFFECTUAL—OR, WORST, INAPPROPRIATE—ECONOMIC POLICIES.

IT ISN'T TOO DIFFICULT, THEN TO MAKE A CASE FOR THE NEED TO MAKE CHOICES. BUT MAKING THEM WON'T BE EASY. NOT EVERYONE IS GOING TO BE SATISFIED. 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 WILL BECOME MUCH MORE FIERCE.

WE ARE BEGINNING TO DEVELOP SOME TECHNIQUES FOR MAKING PUBLIC POLICY CHOICES. WHEN I WAS DIRECTOR OF THE BUREAU OF THE BUDGET IN 1969-70, WE MADE THE FIRST ATTEMPT TO DISPLAY IN THE FEDERAL BUDGET DOCUMENT THE PRIORITIES OVER THE 5 YEARS AHEAD WITHIN THE FEDERAL GOVERNMENT ITSELF, EMPHASIZING THE SHORT-AGE 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 WORK TOWARD 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 CONSTRAIN THE SPENDING 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. THE PRESIDENT FINDS THAT 80 PERCENT OF HIS BUDGET SPENDING IS SET IN CONCRETE BEFORE THE NEW FISCAL YEAR EVEN BEGINS. ONLY THE CONGRESS CAN CHANGE THAT.

BUT CLEARLY WE HAVE NOT AS YET LEARNED HOW TO MAKE THESE CHOICES EASILY. SEVERE DISAGREEMENTS ERUPT ABOUT THE RELATIVE IMPORTANCE OF VARIOUS OBJECTIVES. THERE ARE DIFFERENCES OF VIEW AS TO APPROPRIATE TACTICS AND STRATEGIES. THESE DIFFERENCES BECOME POLITICAL CONFLICTS. WITH OUR MASS MEDIA TRYING SO EARNESTLY TO "EDUCATE" EVERYONE ABOUT "EVERYTHING" PARTIALLY INFORMED OR MIS-INFORMED PUBLIC DEBATE CREATES NEW WAVES OF CONFUSION.

OUR INABILITY TO TRIM OUR PUBLIC SHOPPING LIST TO THE RESOURCES AVAILABLE HAS, OF COURSE, INFLATIONARY IMPLICATIONS. IT IS THE TRADITIONAL EXPLANATION FOR INFLATION. OUR TOTAL DESIRES FOR GOODS AND SERVICES EXCEED THE REAL SUPPLY OF THE GOODS AND SERVICES. THAT INFLATION IS STILL STRONG TODAY EVEN THOUGH THERE MAY BE SOME UNUSED LABOR AND CAPITAL AVAILABLE DOES NOT INVALIDATE THIS PHENOMENON AS THE FUNDAMENTAL FACTOR RESPONSIBLE FOR INFLATION. TO A LARGE EXTENT, WHAT WE ARE SEEING TODAY IS A CARRYOVER FROM OUR EARLIER PERIODS OF EXCESS. THROUGH OUR BUILT-IN OR AUTOMATIC COST OF LIVING ADJUSTMENTS AND THROUGH A HEIGHTENED SENSITIVITY TO "EXPECTED INFLATION" BECAUSE OF OUR PAST PERFORMANCE, WE HAVE TIED, MORE THAN EVER BEFORE, PAST INFLATION TO FUTURE INFLATION.

AND NOW CONFRONTED BY ADDITIONAL PRICE PRESSURES FROM FOOD AND THE PROSPECT OF LARGE AND STILL GROWING GOVERNMENT DEFICITS, THE PRESSURES ON PRICES APPEAR TO BE MOUNTING. PUBLIC AWARENESS OF INFLATION HAS INTENSIFIED. THE URGENCY OF TAKING APPROPRIATE STEPS HAS BECOME MORE OBVIOUS.

IT IS APPROPRIATE THAT WE TAKE STEPS TO COMBAT INFLATION. IT IS AN INSIDIOUS AND EVIL MONSTER. IT AFFECTS THE RATE OF RETURN ON PHYSICAL CAPITAL. IT DISTORTS THE ALLOCATION OF RESOURCES. IT PRODUCES BIASES IN OUR CONSUMPTION AND INVESTMENT PATTERNS. IT REDUCES THE INCENTIVES FOR BUSINESSES TO INVEST AND FOR INDIVIDUALS TO SAVE. IT MEANS LOWER FUTURE REAL INCOME--LOWER SUPPLIES FOR GOODS AND SERVICES.

BUT AS WE TURN OUR ATTENTION TO THE POLICYMAKERS, TO THOSE WHO MUST MOVE THE LEVERS, AND SET THE CONTROLS ON OUR ECONOMIC MACHINE, WE SHOULD BE AWARE THAT WE CAN ONCE AGAIN ASK TOO MUCH OF THEM--EXPECT TOO MUCH. MOST IMPORTANTLY, DON'T EXPECT TO BE ABLE TO WHIP INFLATION OVERNIGHT. IT WILL BE DIFFICULT, IF NOT IMPOSSIBLE, TO MAKE SHARP IMPROVEMENTS QUICKLY IN THE RATE OF INFLATION. WITH A LARGE PART OF OUR PRICE INCREASES LOCKED IN FROM PREVIOUS PERIODS, EVEN ATTEMPTS TO SEVERELY RESTRICT OUR DEMAND FOR GOODS AND SERVICES WILL HAVE LIMITED EFFECTS. AND WE WILL HAVE NO CONTROL OVER SUPPLY PRICE INCREASES SUCH AS THOSE THAT MAY COME FROM FOOD OR OIL WHEN THEY ARE THE RESULT OF WEATHER OR OPEC DECISIONS THAT WILL FEED BACK INTO THE GENERAL PRICE LEVEL.

NOR SHOULD WE EXPECT THAT THE CORRECTION OF THE INFLATION PROBLEM IS A SIMPLE TASK OR THAT ONE ECONOMIC POLICY ACTION CAN DO THE ENTIRE JOB. I OBVIOUSLY HAVE IN MIND THE VIEW THAT INFLATION IS A MONETARY PHENOMENON, THAT SINCE IT IS THE RESULT OF TOO MUCH MONEY CHASING TOO FEW GOODS, MONETARY POLICY CAN CUT BACK THE SUPPLY OF MONEY IN THE ECONOMY AND "SOLVE" THE INFLATION PROBLEM.

I CERTAINLY AGREE THAT MONETARY POLICY IS IMPORTANT. BUT ALONE IT CANNOT SOLVE AN INFLATIONARY PROBLEM THAT HAS ITS ROOTS IN WANTING MORE FROM THE ECONOMY THAN THE ECONOMY CAN DELIVER. WE WOULD BE ASKING MONETARY POLICY TO DO SOMETHING THAT IT IS NOT DESIGNED TO DO--TO MAKE THE CHOICES AS TO THE PRIORITIES FOR SPENDING TO LIVE WITHIN OUR MEANS THAT THE SOCIETY, IN GENERAL, AND THE ELECTED REPRESENTATIVES, IN PARTICULAR, ARE UNWILLING OR UNABLE TO DO. MONETARY POLICY WORKING AS IT DOES BY INFLUENCING THE SUPPLY OF MONEY AND CREDIT DOES NOT AFFECT THE ECONOMY EVENLY. SOME PARTS OF THE ECONOMY ARE HURT MORE THAN OTHERS. AND IT SHOULD BE QUITE CLEAR THAT THE DISTRIBUTION OF EFFECTS MAY NOT BE WHAT THE SOCIETY WANTS AT LEAST ON THE BASIS OF PUBLIC AND CONGRESSIONAL OUTCRIES.

THE CURRENT CONCERN WITH THE EFFECTS OF SOME TIGHTENING OF MONEY POLICY ON HOUSING IS AN OBVIOUS EXAMPLE. THE FEDERAL RESERVE, MOVING AS IT MUST TO FIGHT INFLATION, HAS BEEN MORE RELUCTANTLY SUPPLYING RESERVES TO THE BANKING SYSTEM. INTEREST RATES HAVE RISEN. AND WITH HIGHER INTEREST RATES FOR TREASURY SECURITIES, THE FLOWS OF MONEY TO SAVINGS AND LOAN ASSOCIATIONS AND MUTUAL SAVINGS BANKS HAS SLOWED. MORTGAGE INTEREST RATES HAVE RISEN AND THE AVAILABILITY OF MORTGAGE CREDIT HAS BEEN REDUCED. THE RESPONSE FROM MANY IN OUR SOCIETY IS CLEAR--WE ARE CHOKING OFF FUNDS FOR THE VITAL AND IMPORTANT HOUSING MARKET.

SUPPOSE FOR A MOMENT THAT MONETARY POLICY WERE TO CARRY THE ENTIRE LOAD IN THE INFLATION BATTLE. IN THE FACE OF STRONG INFLATIONARY PRESSURES, FURTHER TIGHTENING WOULD BE REQUIRED. HOUSING WOULD BE HIT HARDER. OTHER PARTS OF THE ECONOMY PERHAPS SMALLER BUSINESS FIRMS WOULD BEGIN TO FEEL THE PINCH AND THEN STILL OTHERS. BUT THE ONE BORROWER THAT WOULD NOT, WOULD BE THE GOVERNMENT. IT CAN PAY THE INTEREST RATES REQUIRED. THE AVAILABILITY OF CREDIT TO IT IS NOT CUT OFF.

IT DEPRESSES ME TO CARRY THIS SCENARIO EVEN FURTHER. IT SHOULD BE OBVIOUS THAT PRIVATE BUSINESSES AND INDIVIDUALS WILL CARRY THE BURDEN. THE CHOICE AS TO HOW WE WILL USE OUR SCARCE RESOURCES WILL HAVE BEEN MADE AS IT MUST. BUT IS THAT THE WAY TO MAKE THE DECISION? IT CERTAINLY ISN'T!

BUT THAT MEANS THAT WE WILL HAVE TO MAKE SOME HARD CHOICES IN OUR PUBLIC SPENDING AND TAXING POLICIES. FISCAL POLICY WILL HAVE TO CARRY A LARGER PART OF THE ROLE OF FIGHTING INFLATION. THE GOVERNMENT WILL HAVE TO MODERATE SPENDING—REDUCE OUR FEDERAL DEFICIT. THROUGH OUR ELECTED REPRESENTATIVES, WE WILL HAVE TO DECIDE WHAT THINGS ARE MORE IMPORTANT. AS A SOCIETY WE WILL HAVE TO SACRIFICE SOME OF OUR DESIRES AND PLANS IF WE HOPE TO REDUCE INFLATION.

I AM SOMEWHAT CHEERED BY THE REPORTS THAT THE ADMINISTRATION MAY BE CONSIDERING A CHANGE IN ITS TAX REDUCTION PROGRAM BRINGING THE TAX REDUCTION DOWN TO \$20 BILLION AND DELAYING ITS EFFECTIVE DATE. NOT THAT I PREFER HIGHER TO LOWER TAXES IN A SELFISH SENSE, BUT BECAUSE THE POLICY DOES LEAN IN THE DIRECTION OF IMPROVING OUR SPENDING AND TAXING RELATIONSHIP.

I SAID THAT AT THE OUTSET THAT A SERIOUS TOPIC NEED NOT BE GLOOMY. I HOPE THAT YOU DON'T VIEW MY REMARKS AS A GLOOMY VIEW OF OUR ECONOMIC CONDITION. I AM CAUTIOUSLY OPTIMISTIC THAT WE CAN MAKE PROGRESS TOWARD REDUCING THE RATE OF INFLATION. IT WILL BE SLOW PROGRESS. IT WILL ENTAIL SOME SACRIFICE. BUT I THINK THAT THE PUBLIC IS BEGINNING TO UNDERSTAND THE HORRIBLE COSTS OF INFLATION AND THE NECESSARY DISCOMFORTS OF CORRECTING IT. I ONLY HOPE THAT THE POLITICAL RESOLVE WHICH MUST FLOW FROM THE PUBLIC'S CONCERN WILL NOT WILT AT THE FIRST SIGNS OF SACRIFICE.