

REMARKS OF MR. ROBERT P. MAYO
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TO THE NATIONAL FINANCE AND CREDIT SEMINAR
BANK FOR COOPERATIVES
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FINANCIAL POLICIES OF THE FEDERAL GOVERNMENT

IT IS A PLEASURE FOR ME TO BE WITH YOU THIS EVENING TO OPEN YOUR SEMINAR ON NATIONAL CREDIT AND FINANCE. THE GROWTH AND DEVELOPMENT OF THE ECONOMY OUR COUNTRY FROM THE NEAR-BARTER FARMING AND HUNTING ENVIRONMENT OF COLONIAL DAYS TO OUR POSITION AS THE PREEMINENT INDUSTRIAL NATION IN THE WORLD TODAY HAS BEEN PHENOMENAL. AND IT CARRIES WITH IT AN AMAZING STORY OF THE DEVELOPMENT OF PROGRESSIVELY MORE SOPHISTICATED CREDIT CHANNELS AND FINANCING METHODS. TONIGHT I WANT TO TALK WITH YOU ABOUT A VERY IMPORTANT PART OF THAT STORY-- GOVERNMENT FINANCIAL POLICY. SINCE THE EARLY 1930s, THE FEDERAL GOVERNMENT, AS THE DOMINANT BORROWER, AS WELL AS A MAJOR LENDER AND GUARANTOR, HAS HAD A PROGRESSIVELY INCREASING IMPACT ON FINANCIAL MARKETS.

MY REMARKS WILL BE FOCUSED ON GOVERNMENT FINANCIAL POLICY IN ITS BROADEST TERMS--THE COMBINATION AND COORDINATION OF GOVERNMENT'S TWO PRINCIPAL POLICY MECHANISMS, MONETARY AND FISCAL POLICY. IT SEEMS TO ME THAT FULL UNDERSTANDING OF THE CONCEPT THAT MONETARY AND FISCAL POLICIES MUST OPERATE AS A TEAM TO FORM A UNIFIED NATIONAL FINANCIAL POLICY IS ONLY NOW BEGINNING TO PENETRATE THE THINKING OF THE AMERICAN PUBLIC

AND OUR POLITICAL POLICY MAKERS. INDEED, THE NEED FOR CO-ORDINATION OF MONETARY AND FISCAL DIRECTIONS APPEARS TO BE A NEW IDEA TO CERTAIN SEGMENTS OF THE ECONOMIC PROFESSION. I AM NOT EVEN SURE WHERE, IN MY CAREER, WITH SUCCESSIVE EXPOSURE TO THE VARIOUS ASPECTS OF OVERALL ECONOMIC POLICY--FINANCING POLICY, FISCAL POLICY, AND MONETARY POLICY, THAT I BEGAN TO THINK IN TERMS OF A UNIFIED FINANCIAL POLICY.

THERE IS, HOWEVER, A DISTINCT LINKAGE BETWEEN MONETARY POLICY AND FISCAL POLICY WHICH IS A DIRECT CONSEQUENCE OF THE POLITICAL STRUCTURE OF OUR COUNTRY. THE FEDERAL RESERVE SYSTEM IS A CREATION OF THE CONGRESS AND, IS BROADLY RESPONSIBLE TO IT. BUT THE CONGRESS WAS VERY WISE TO CREATE THE FED AS AN INDEPENDENT BODY--NOT INDEPENDENT OF THE GOVERNMENT, BUT INDEPENDENT WITHIN THE GOVERNMENT. THUS WHILE MONETARY POLICY HAS A RANGE OF INDEPENDENCE, IT CANNOT IGNORE THE ECONOMIC TARGETS THE GOVERNMENT WISHES TO ACHIEVE. THE CONGRESS HAS FINAL SAY OVER FISCAL POLICY THROUGH ITS CONTROL OF APPROPRIATIONS AND TAX LEGISLATION. AN INDEPENDENT MONETARY AUTHORITY WHICH REGULARLY ACTS TO FRUSTRATE FISCAL POLICY OVER ANY EXTENDED TIME PERIOD WILL FAST LOSE ITS INDEPENDENCE. TO THAT EXTENT MONETARY POLICY IS TIED TO FISCAL POLICY. THERE IS NO WAY THAT THE LONG SEQUENCES OF DEFICITS OF THE 1960s AND 1970s COULD HAVE OCCURRED WITHOUT PLACING SEVERE CONSTRAINTS ON THE CONDUCT OF MONETARY POLICY. THE INCREASED PUBLIC DEBT HAD TO

BE SUCCESSFULLY FINANCED AND THAT COULD NOT OCCUR WITHOUT SOME DEGREE OF MONETARY EXPANSION UNLESS THE LIFE-BLOOD OF PRIVATE CREDIT WERE TO BE CHOKED OFF UNMERCILESSLY.

THE DECADE OF THE '70S CAN BE LOOKED ON AS THE DECADE OF THE DEFICIT. DURING EVERY SINGLE YEAR OF THE DECADE THE FEDERAL BUDGET OPERATIONS HAVE RESULTED IN A DEFICIT. AND BORROWINGS FOR FEDERALLY SPONSORED PROGRAMS NOT COUNTED IN THE BUDGET--DESPITE OUR HEROIC EFFORTS IN THE 1967 BUDGET COMMISSION TO INCLUDE THEM--HAVE ADDED SIGNIFICANT AMOUNTS TO THE TOTAL DEBT. THIS STRING OF DEFICITS, TOGETHER WITH THOSE ACCUMULATED IN THE LATE 1960s, HAS BEEN THE PRIMARY SOURCE OF THE INFLATION WHICH PLAGUES US TODAY. ECONOMISTS MAY DISAGREE AS TO THE PRECISE MECHANISM THROUGH WHICH PROLONGED DEFICIT SPENDING FEEDS THE FIRES OF INFLATION. SOME SEE THE ACTION AS DIRECT--GOVERNMENT-DEFICIT SPENDING RAISES PRICES. OTHERS SEE AN INDIRECT LINKAGE--GOVERNMENT SPENDING LEADS TO FASTER MONETARY GROWTH--MONETARY EXPANSION CAUSES INFLATION. BUT REGARDLESS OF THE DETAILS, THE CONSENSUS AGREES, DEFICITS DO GENERATE INFLATION.

YOU WOULD THINK ME FOOLISH IF I TRIED TO CONVINCING YOU THAT FEDERAL GOVERNMENT DEFICITS WERE THE ONLY CAUSE OF INFLATION. WE CERTAINLY CANNOT IGNORE OPEC INDUCED INFLATION, OR THE EFFECT OF WEATHER ON THE PRICE OF FOOD, OR, THE PERSISTENT CONTRIBUTIONS TO INFLATION BY OVERZEALOUS MANAGEMENT, LABOR, OR THE INFLATIONARY CONSEQUENCES OF MISGUIDED EXCESSES IN

GOVERNMENT REGULATION. BUT EXCESSIVE MONEY CREATION GROWING OUT OF FEDERAL DEFICITS IS STILL PRIMARY OVER THE LONGER RUN. MONEY DOES MATTER. WE AT THE FED COULD PROBABLY CURE THE INFLATION DISEASE, BUT IN THE PROCESS WE COULD ALSO CREATE A DEPRESSION THAT COULD DESTROY OUR DEMOCRATIC WAY OF LIFE. THAT WE WILL NEVER DO.

THE CENTRAL FACT ABOUT THE PRESENT INFLATION IS ITS PERSISTENCE. WE HAVE EXPERIENCED SHORT PERIODS WHEN PRICES ROSE AS RAPIDLY SEVERAL TIMES IN THE PAST. BUT INFLATION RATES ABOVE 6 PERCENT, OCCASIONALLY REACHING ABOVE 12 PERCENT, YEAR AFTER YEAR, IS A FRIGHTENING NEW EXPERIENCE FOR AMERICANS. EVEN THE LAST SEVERE RECESSION, THE WORST SINCE THE DEPRESSION OF THE '30s, MADE ONLY A TEMPORARY DENT IN THE INFLATION RATE. AND IT WAS FOLLOWED BY ALMOST CONTINUOUS ACCELERATION OF PRICES DURING THE LONG PERIOD OF STRONG ECONOMIC GROWTH WHICH HAS FOLLOWED. NOW WE HAVE AN UNEMPLOYMENT RATE WHICH IS HIGH BY HISTORICAL STANDARDS AND AN OUTLOOK FOR ECONOMIC GROWTH WHICH IS LOW. BOTH OF THESE PROBLEMS WOULD HAVE HELD CENTER STAGE A DECADE AGO. BUT TODAY INFLATION IS THE NUMBER ONE ECONOMIC PROBLEM. FROM POLLS OF THE GENERAL PUBLIC, FROM THE MEDIA, FROM THE CONGRESS, FROM THE FEDERAL RESERVE, FROM THE ADMINISTRATION AND FROM ALL OF OUR FREE-WORLD FRIENDS, THE VERDICT IS UNANIMOUS. INFLATION IS THE ENEMY.

ACCOMPANYING THIS RECOGNITION THAT INFLATION IS THE PRIMARY PROBLEM HAS COME A COMMITMENT TO A FEDERAL FINANCIAL POLICY AIMED DIRECTLY AT ITS SOLUTION. THE ADMINISTRATION HAS PROPOSED AND CONGRESS APPEARS DISPOSED TO IMPLEMENT A FISCAL POLICY OF PROGRESSIVELY SMALLER DEFICITS THIS YEAR AND NEXT. WE MIGHT EVEN

PROJECT A POTENTIAL SURPLUS IN FISCAL 1981. THE FEDERAL RESERVE SYSTEM WITHOUT SIGNIFICANT OPPOSITION IN THE CONGRESS, HAS REDUCED MONEY CREATION IN 1979. WE HAVE ALSO PROPOSED A DISTINCT DECLINE IN OUR TARGETS FOR THE RATE OF MONETARY GROWTH THROUGH 1980 AS COMPARED TO THE RESULTS OF 1978. WE HAVE ALSO INDICATED OUR PRESENT INTENTION TO CONTINUE LOWERING THE GROWTH RATE OF MONEY BEYOND 1980, THE PRESENT FORECAST HORIZON. THE ADMINISTRATION AND THE FED SYSTEM HAVE EXPRESSED SLIGHTLY DIFFERING VIEWS AS TO HOW MUCH INFLATION CAN BE LOWERED BY THESE POLICIES BETWEEN NOW AND 1980, AND WHAT THE COST WILL BE IN TERMS OF SLOWED ECONOMIC GROWTH. BUT BOTH HAVE INDICATED A FIRM COMMITMENT TO MAINTAIN THIS ANTI-INFLATIONARY STANCE BEYOND 1980 TO BRING THE RATE OF PRICE INCREASE DOWN TO MORE NORMAL LEVELS.

IT HAS TAKEN US NEARLY FIFTEEN YEARS TO GET OURSELVES INTO OUR PRESENT DIFFICULTIES. WE ARE NOT GOING TO GET OUT OF OUR PRE-DICAMENT IN SIX MONTHS, OR EVEN TWO YEARS. BUT THE PROBLEM CAN BE SOLVED. WE MUST CONTINUE TO EXERCISE RESTRAINT. WE MUST DEMONSTRATE TO THE AMERICAN PUBLIC ENOUGH PROGRESS THAT IT REMAINS CLEAR THAT THE RESTRAINT THEY, IN TURN, WILL BE REQUIRED TO EXHIBIT, IS WORTH DOING.

IT IS ECOURAGING, THOUGH THAT DURING MUCH OF THE PERIOD WHEN WE WERE ACCUMULATING THE LONG STRING OF DEFICITS WHICH LED TO OUR PRESENT PLIGHT WE WERE ALSO CONSTRUCTING A SYSTEM WHICH OFFERS SUBSTANTIAL HOPE FOR A MUCH MORE CAREFULLY-PLANNED FISCAL POLICY THAN EVER BEFORE. THE PROCESS BEGAN WITH THE RECOMMENDATIONS OF

PRESIDENT'S COMMISSION ON BUDGET CONCEPTS IN LATE 1967. THESE RECOMMENDATIONS WERE IMPLEMENTED IN THE BUDGET FOR FISCAL 1969--OUR FIRST UNIFIED BUDGET--UNDER PRESIDENT JOHNSON. UNDER PRESIDENT NIXON DATA WERE INTRODUCED INTO SUCCESSIVE BUDGET DOCUMENTS PROVIDING PROJECTIONS OF FUTURE BUDGETS, FIVE YEARS OUT. THIS MARKED THE BEGINNING OF A LONGER RANGE FOCUS ON GOVERNMENT FINANCIAL POLICY WHICH PRESIDENTS FORD AND CARTER HAVE EXPANDED SIGNIFICANTLY.

THEN CAME THE CONGRESSIONAL BUDGET ACT OF 1974, COMPLETELY REVAMPING THE PROCEDURES OF THE CONGRESS IN DEALING WITH ADMINISTRATION BUDGET PROPOSALS. THIS ACT REQUIRED THAT EACH HOUSE EXAMINE THE TOTAL BUDGET PROPOSALS OF THE PRESIDENT IN TERMS OF SPENDING PRIORITIES AND IN TERMS OF THE SURPLUS OR DEFICIT APPROPRIATE TO EXISTING AND EXPECTED ECONOMIC CONDITIONS BEFORE APPROPRIATION BILLS WERE VOTED. IT ALSO PROVIDED THE CONGRESS WITH ITS OWN PROFESSIONAL ECONOMIC STAFF TO ASSEMBLE THE BACKGROUND NECESSARY TO MAKE SUCH JUDGEMENTS.

PRIOR TO THE BUDGET ACT, THE ONLY ATTEMPTS BY THE CONGRESS TO CONSIDER OVERALL BUDGET POLICY WERE IN THREE FORMS: (1) TAX BILL FORMULATION BY CONGRESSIONAL COMMITTEES WHICH HAD NO POWER OVER SPENDING, (2) A PERFUNCTORY INTRODUCTORY APPEARANCE BY ADMINISTRATION OFFICIALS BEFORE THE APPROPRIATIONS COMMITTEES AT THE OPENING OF THE CONGRESS, AND (3) THAT UNIQUELY AMERICAN POLITICAL ANACHRONISM CALLED THE PUBLIC DEBT LIMIT, WHICH IS ABOUT AS FUTILE A FISCAL CONTROL DEVICE AS TAKING OUT FIRE INSURANCE WHILE YOUR HOME IS BURNING TO THE GROUND.

THE MOST RECENT PROGRESSIVE CONGRESSIONAL STEP IS THE IMPLEMENTATION OF THE HUMPHREY-HAWKINS ACT. THIS ACT REQUIRES THAT THE ADMINISTRATION PLAN FISCAL POLICY ON A FIVE-YEAR BASIS. ITS ULTIMATE OBJECTIVE IS TO REACH A 3 PERCENT ADULT UNEMPLOYMENT RATE AND ZERO INFLATION--OR TO STATE IN DETAIL WHY THOSE OBJECTIVES CANNOT BE OBTAINED WITHIN IN THE PLANNING HORIZON.

IN THE AREA OF MONETARY POLICY THE HUMPHREY-HAWKINS BILL HAS BROADENED AND FORMALIZED THE REPORTING OF MONETARY POLICY ACCOMPLISHMENTS AND GOALS WHICH HAD BEGUN UNDER CHAIRMAN BURNS NEARLY FOUR YEARS EARLIER. THE FEDERAL RESERVE SYSTEM IS NOW REQUIRED TO REPORT TO THE CONGRESS ON ITS PROPOSED MONETARY POLICY APPROXIMATELY TWO YEARS INTO THE FUTURE. IT MUST PRESENT ITS BEST OPINION AS TO THE ECONOMIC CONDITIONS EXPECTED TO RESULT, SHOULD THESE EXPECTATIONS DIFFER FROM THE PRESIDENT'S PLANNED RESULTS, THE DIFFERENCES MUST BE EXPLAINED AND JUSTIFIED.

THESE TOOLS PROVIDE THE MEANS FOR THE BROADEST PLANNING OF GOVERNMENT FINANCIAL POLICY ANY NATION HAS EVER HAD. BOTH ECONOMIC OBJECTIVES AND THE POLICY CHOICES AVAILABLE FOR ACHIEVING THOSE OBJECTIVES WILL BE REGULARLY EXPOSED FOR DISCUSSION AND DECISION BY THE POLITICAL LEADERSHIP OF THE COUNTRY. THIS DOES NOT MEAN THAT THE MILLENIUM OF ECONOMIC FINE-TUNING THAT MANY ECONOMISTS THOUGHT WAS TO BE ACHIEVED IN THE LATE 1960s IS NOW AT HAND. MAY HEAVEN FORBID. THE WORLD IS NOT THAT SIMPLE. RESULTS ARE GOING TO BE DIFFERENT FROM PLANS. PRESSURES TO USE OVER-STIMULATIVE POLICIES DURING PERIODS OF SLOW GROWTH WILL CONTINUE. THE SETTING OF

OBJECTIVES WHICH CAN REASONABLY BE MET IN THE RELEVANT TIME FRAME WILL REMAIN A DIFFICULT PROBLEM AND ONE ON WHICH REASONABLE MEN WILL DIFFER. BUT RATIONAL PLANNING OF GOVERNMENT POLICY HAS BEEN ADVANCED BY SEVERAL MAJOR STEPS DURING THE PAST DECADE.

IT IS INTERESTING THAT EVEN BEFORE WE HAVE SEEN THE RESULTS COMING FROM THE FIRST ROUND OF THIS PLANNING PROCESS, WE ALREADY ARE FACING SOME UNUSUAL CONSEQUENCES OF WHAT MIGHT BE CALLED THE "PROPOSITION 13 SYNDROME".

THE PASSAGE LAST JUNE OF PROPOSITION 13 TO LIMIT STATE AND LOCAL SPENDING IN CALIFORNIA HAS BEEN REINFORCED BY SIMILAR ACTIONS IN SEVERAL OTHER STATES LAST NOVEMBER. AS A DIRECT CONSEQUENCE, CONGRESSMEN HAVE DELUGED US WITH ORATORY EXTOLLING THE VIRTUES OF A BALANCED BUDGET. BEHIND THE ORATORY IS, I BELIEVE, A REAL CONSENSUS THAT THE RATE OF GROWTH OF FEDERAL OUTLAYS MUST BE SLOWED TO BELOW THE GROWTH IN INFLATION-SWOLLEN REVENUES. PLANS MUST BE MADE FOR FUTURE SUBSTANTIAL TAX CUTS AND, BARRING EMERGENCIES, A BALANCED BUDGET A YEAR OR TWO FROM NOW. ENTHUSIASTIC ATTEMPTS TO LEGISLATE A BALANCED BUDGET BY AMENDMENT OF THE BILL INCREASING THE FEDERAL DEBT LIMIT WITHIN THE PAST MONTH WARM ONE'S HEART. BUT THEY SO DELAYED ACTION THAT THE TREASURY WAS NEARLY FORCED INTO TECHNICAL DEFAULT EARLY IN APRIL--A FAR MORE SERIOUS MATTER THAN MOST AMERICANS REALIZE.

DEBATE HAS NOW SHIFTED TO THE DETAILS OF THE FIRST CONGRESSIONAL BUDGET RESOLUTION FOR FISCAL 1980. ACTION IS DUE TO BE COMPLETED BY MAY 15, BUT STEPS ALREADY TAKEN IN BOTH HOUSES HAVE EMPHASIZED

THE PRESSURES FELT BY THE CONGRESS TO PROGRESSIVELY REDUCE THE DEFICIT. THE CONGRESS MAY EVEN MOVE MORE RAPIDLY TOWARD A BALANCE THAN THE PLAN PROPOSED BY THE ADMINISTRATION.

LURKING BEHIND ALL OF THIS NEW-FOUND DEVOTION TO A BALANCED BUDGET IN CONGRESS IS THE THREAT THAT EVENTS MAY TAKE THE CHOICE OUT OF CONGRESSIONAL HANDS. CURRENTLY BETWEEN 22 AND 28 STATES, DEPENDING ON HOW ONE COUNTS, HAVE PETITIONED FOR A CONSTITUTIONAL CONVENTION TO WRITE AN AMENDMENT REQUIRING THE FEDERAL GOVERNMENT TO OPERATE WITH A BALANCED BUDGET. THE WIDE-SPREAD PUBLICITY GIVEN TO THE PERILS AND PROBLEMS OF THE NEVER-TRIED CONVENTION ROUTE TO AMENDING THE CONSTITUTION, PLUS THE QUESTIONS ABOUT THE VALIDITY OF SOME OF THE PETITIONS, MAY HAVE LESSENED THE POSSIBILITY OF AN AMENDMENT COMING OUT OF THIS PROCESS. NEVERTHELESS, IT SEEMS CERTAIN THAT SIMILAR PROPOSALS FOR A BALANCED BUDGET, OR OTHER TYPES OF RESTRICTIONS ON TAXING OR SPENDING, WILL BE DEBATED IN THE CONGRESS THIS YEAR. THE CLAMOR FOR ACTION IS NOT GOING TO GO AWAY UNTIL THE PUBLIC IS SATISFIED THAT INFLATION IS REALLY WINDING DOWN.

THE CONSTITUTION OF THE UNITED STATES IS A BROAD AND FLEXIBLE DOCUMENT. IT HAS SERVED OUR NEEDS WELL FOR NEARLY TWO HUNDRED YEARS. IT HAS DONE SO BECAUSE IT CONTAINS VERY FEW SPECIFIC RULES OR INSTRUCTIONS. THE NATION GENERALLY HAS RECOGNIZED THE NECESSITY FOR KEEPING THIS GENERALITY INTACT. NUMEROUS PROPOSALS FOR AMENDMENTS WITH SPECIFIC INTENT HAVE FADED INTO LIMBO. ONCE EXCEPTION, THE PROHIBITION AMENDMENT, PROVED A FAILURE AND WAS SUBSEQUENTLY

REPEALED. IT SEEMS TO ME THAT A CONSTITUTIONAL PROVISION REQUIRING A BALANCED BUDGET WOULD EITHER HAVE TO INCLUDE AN ESCAPE CLAUSE SO LOOSE AS TO MAKE THE REQUIREMENT IRRELEVANT, OR IT WOULD PROVE A FAILURE, AS PROHIBITION DID. IN THIS LATTER CASE, THE REPEAL PROCESS MIGHT TAKE SO LONG THAT MASSIVE DAMAGE TO THE NATION'S ECONOMY WOULD OCCUR BEFORE THE PERIL WAS ELIMINATED.

MOST OF THE SUPPORT FOR A BALANCED BUDGET SEEMS TO COME FROM THOSE ADVOCATING REDUCTION IN THE OVERALL SCOPE OF GOVERNMENT, REDUCTION IN TAXES, AND REDUCTION IN GOVERNMENT REGULATORY ACTIVITY. I AM PROUD TO BE A MEMBER OF THAT GROUP. BUT THE MERE ACT OF BALANCING THE BUDGET EACH YEAR DOES LITTLE TO ACCOMPLISH THAT SET OF OBJECTIVES. INDEED, THE EASIEST WAY FOR A CONGRESSMAN TO BALANCE OUTLAYS PUSHED UPWARD BY EVER-INCREASING DEMANDS FOR GOVERNMENT SOLUTIONS TO OUR PROBLEMS IS NOT TO ATTEMPT TO CUT SPENDING. IT IS TO INCREASE TAXES. AND TO THE EXTENT THAT A BALANCED BUDGET CANNOT ACCOMODATE DEMANDS TO ACHIEVE SOCIAL GOALS, THE DIRECTION TAKEN WOULD DOUBTEDLY BE INCREASED FEDERAL REGULATION, SUBSTITUTING FORCED PRIVATE SPENDING FOR THE GOVERNMENT'S FORBIDDEN SPENDING. AND WE ALREADY HAVE TOO MUCH FEDERAL REGULATION.

ONE CAN IMAGINE THE CHAOS WHICH WOULD BE CREATED IF THE CONSTITUTION REQUIRED A BALANCED BUDGET AND A RECESSION WERE DEEPENING. TAX REVENUES WOULD BE SHRINKING, EXPENDITURES FOR UNEMPLOYMENT INSURANCE AND RELIEF PROGRAMS WOULD BE RISING AND THE DILEMMA FACING THE CONGRESS WOULD BE AN IMPOSSIBLE ONE. THEY COULD

RAISE TAXES, WHICH WOULD DEPRESS BUSINESS CAPITAL EXPENDITURES, EMPLOYMENT, AND CONSUMPTION EXPENDITURES FURTHER. OR THEY COULD SLASH FEDERAL SPENDING. IF THEY SLASHED DIRECT FEDERAL SPENDING, EVEN MORE PEOPLE WOULD BE THROWN OUT OF WORK. SO THEY WOULD MORE LIKELY SLASH FEDERAL AID TO STATE AND LOCAL GOVERNMENTS. A DISASTROUS CUT IN STATE AND LOCAL PROGRAMS WOULD ENSUE. MANY WORTHWHILE PROGRAMS WOULD GO DOWN THE DRAIN, ALONG WITH SOME DESIRABLE CUTS, AND MANY GOVERNMENTAL UNITS, FACED WITH INCREASED SPENDING DEMANDS AND REDUCED REVENUE THEMSELVES WOULD FIND THEM EITHER ON THE VERGE OF BANKRUPTCY OR PERHAPS BEYOND. I CAN'T IMAGINE A MORE DISASTROUS ECONOMIC PROSPECT.

THERE ARE OTHER PROPOSALS BEING VOICED WHICH, RATHER THAN FORCING BUDGET BALANCE, WOULD RESTRICT EXPENDITURES OR REVENUES (OR BOTH) BY FIXING MAXIMUM GROWTH RATES OR RELATING GROWTH TO FIXED SHARES OF GNP. I AM ONLY SLIGHTLY LESS APPREHENSIVE ABOUT SEEING THIS TYPE OF RESTRICTION EMBODIED IN CONSTITUTIONAL PERMANENCY THAN I AM OF THE BALANCED BUDGET CONCEPT. I CAN ALREADY VISUALIZE THE SUPREME COURT FACED WITH DECIDING HOW TO DEFINE GNP AND--INDEED-- HOW TO DEFINE THE BUDGET!

IT MAY BE THAT THE POLITICAL PRESSURES FOR SOME KIND OF ACTION WILL BECOME SO GREAT THAT THE CURRENT CONGRESS WILL BE FORCED TO DO SOMETHING OTHER THAN TRYING HARDER TO IMPROVE ITS PERFORMANCE UNDER ITS PRESENT CONSTRAINTS. IN THAT EVENT WISDOM WOULD DICTATE USE OF A STATUTORY APPROACH--NOT A CONSTITUTIONAL ONE. STATUTE LAW IS

MUCH EASIER TO CHANGE THAN IS THE CONSTITUTION. BUT THE OUTCOME MOST TO BE HOPED FOR, IT SEEMS TO ME, IS A BROAD RECOGNITION THAT, HOWEVER DANGEROUSLY DEFICIT SPENDING MAY HAVE BEEN ABUSED IN THE PAST, FLEXIBLE FISCAL POLICY IS A NEEDED TOOL IN GUIDING THE ECONOMY ON A REASONABLY STABLE COURSE. NO FUTURE CONGRESS OR ADMINISTRATION SHOULD BE DEPRIVED OF THE POWER TO USE FISCAL POLICY TO SLOW OR STIMULATE THE ECONOMY WHEN THE NEED ARISES. GIVEN THE CONSTANTLY IMPROVING PROCEDURES FOR TYING GOVERNMENT POLICY TO BROAD ECONOMIC OBJECTIVES, THE CHANCES SEEM GREATLY IMPROVED THAT WE WILL CORRECT, NOT CONTINUE, THE INFLATIONARY POLICIES OF THE PAST DECADE. I BELIEVE THE PEOPLE WILL DEMAND IT, BOTH THROUGH PUBLIC EXPRESSION AND AT THE POLLS.

I COULD NOT LEAVE THIS GROUP TONIGHT WITHOUT SAYING A FEW WORDS ABOUT ONE SPECIFIC ASPECT OF FINANCIAL POLICY, THE CREDIT ACTIVITIES OF THE FEDERAL GOVERNMENT. YOU WILL BE FOCUSING ON THIS AREA MUCH MORE SHARPLY TOMORROW, BUT CREDIT PROGRAMS SEEM TO GET SO MUCH LESS ATTENTION IN DISCUSSIONS OF FISCAL POLICY THAN OTHER GOVERNMENT OUTLAYS THAT I WOULD LIKE TO TAKE A FEW MOMENTS TO HIGHLIGHT THEIR IMPORTANCE. THE U.S. GOVERNMENT, TOGETHER WITH ITS SPONSORED AGENCIES, CAN BE VIEWED AS THE WORLD'S LARGEST FINANCIAL INTERMEDIARY. DURING 1978 THE GOVERNMENT MADE NET NEW LOANS TOTALING \$20 BILLION. SPONSORED AGENCIES ADDED \$28 BILLION TO THEIR PORTFOLIOS. THIS \$48 BILLION IN NEW LOANS EXCEEDED THE TOTAL LOAN PORTFOLIO OF THE NATION'S LARGEST BANK. BUT THAT WAS NOT THE END OF THE GOVERNMENT'S CREDIT ACTIVITY. IT EXTENDED GUARANTEES, IN WHOLE OR PART, TO AN ADDITIONAL \$11 BILLION OF BORROWINGS. BY YEAR-END THE DIRECT PORTFOLIO OF THE GOVERNMENT AND SPONSORED

AGENCIES TOTALED OVER \$320 BILLION, AND OUTSTANDING GUARANTEES COVERED \$190 BILLION MORE INDEBTEDNESS. A SIGNIFICANT AMOUNT OF THIS CREDIT FLOWED INTO THE AGRICULTURAL SECTOR THROUGH THE VARIOUS ARMS OF THE FARM CREDIT SYSTEM. ONE-THIRD OF ALL OUTSTANDING FARM CREDIT WAS FURNISHED THROUGH THE BANKS FOR COOPERATIVES, THE FEDERAL INTERMEDIATE CREDIT BANKS AND THE FEDERAL LAND BANKS, AND AN ADDITIONAL QUARTER WAS COVERED BY GUARANTEES.

BECAUSE MOST OF THE GOVERNMENT'S DIRECT CREDIT PROGRAMS OPERATE ON A REVOLVING FUND BASIS, APPROPRIATIONS ARE REQUIRED ONLY FOR THE INCREASES IN CREDIT. ONCE ESTABLISHED, THESE PROGRAMS FREQUENTLY HAVE AUTHORIZATION TO PROCEED FOR SEVERAL YEARS WITHOUT CLOSE CONGRESSIONAL SCRUTINY. THE NEXT MAJOR STEP IN BUILDING THE SYSTEM FOR PLANNING OVERALL FEDERAL FINANCIAL POLICY SHOULD BE TO EMBRACE MORE CAREFUL PLANNING AND CONTROL OF GOVERNMENT CREDIT PROGRAMS.

IT IS THEREFORE GRATIFYING TO SEE THAT, AS PART OF THE 1980 BUDGET MESSAGE, PRESIDENT CARTER HAS PROPOSED A NEW SYSTEM FOR CREDIT REVIEW AND CONTROL WITH THE INTENT, IN HIS WORDS, OF DEVELOPING "A MORE RATIONAL CREDIT POLICY." THE ADMINISTRATION PROPOSES ESTABLISHING A CREDIT INFORMATION SYSTEM, A CONTROL SYSTEM, AND CREDIT PROGRAM SCOREKEEPING:

-- THE CREDIT INFORMATION SYSTEM WOULD SUPPLY REGULAR REPORTS ON ACTUAL PROGRAM OPERATIONS AND ON ESTIMATES FOR FUTURE YEARS, FOR ALL FEDERAL CREDIT PROGRAMS AND FOR GOVERNMENT-SPONSORED ENTERPRISES.

-- THE CONTROL SYSTEM WOULD ADOPT AS ITS BASIC MECHANISM ANNUAL LIMITATIONS ON GROSS LOAN ACTIVITY FOR BOTH DIRECT LENDING AND LOAN GUARANTEE PROGRAMS. THESE LIMITATIONS WOULD BE PROPOSED IN THE BUDGET, REFLECTED IN CONGRESSIONAL BUDGET RESOLUTIONS, AND ESTABLISHED IN REGULAR APPROPRIATION ACTS.

-- CREDIT PROGRAM SCOREKEEPING WOULD TAKE THE FORM OF TRACKING NET CHANGES IN THE AMOUNT OF DIRECT LOANS OUTSTANDING PLUS THE NET CHANGE IN GUARANTEED LOANS OUTSTANDING. BUDGET AUTHORITY AND OUTLAYS ASSOCIATED WITH DIRECT LOANS WOULD BE TREATED IN THE BUDGET AS THEY ARE NOW. LOAN GUARANTEES WOULD NOT BE REFLECTED IN THE OUTLAY TOTALS OR BUDGET AUTHORITY, BUT WOULD BE INCLUDED IN LIMITATIONS ON GROSS LOAN ACTIVITY.

THE ADOPTION OF THIS PROPOSAL WOULD, IN MY JUDGMENT, REPRESENT A MAJOR STEP FORWARD IN PLANNING AND CONTROL OF GOVERNMENT POLICY. IT WOULD CLOSE THE LAST OBVIOUS GAP IN THE SET OF TOOLS NEEDED TO DIRECT GOVERNMENT ACTIONS ALONG A PATH WHICH WOULD BE CONSISTENT WITH THE GOALS OF POLICY.

TOOLS ALONE, HOWEVER, ARE NOT ENOUGH. THOSE TOOLS MUST BE USED INTELLIGENTLY TO ACHIEVE GOALS THAT ARE REASONABLY DETERMINED.

IN THE LONG RUN, WHETHER OUR ECONOMY CAN BE DIRECTED BACK TO A PATH OF NON-INFLATIONARY STABLE GROWTH WITH LOW UNEMPLOYMENT OR NOT WILL DEPEND ON HOW WELL WE USE THE PLANNING AND POLICY TOOLS WE HAVE DEvised.

DESPITE ALL OF OUR CURRENT EMOTIONAL ATTACHMENT AMONG AMERICANS TO SEARING SELF CRITICISM, WE MUST NEVER LOSE OUR PERSPECTIVE. WE MUST NEVER FORGET THAT WE ARE THE MOST ADVANCED NATION IN THE WORLD IN TERMS OF NATURAL WEALTH, INNOVATIVENESS, SUPPORT OF MINORITIES, ENVIRONMENTAL AND SAFETY CONSCIOUSNESS, CONSUMER PROTECTION, AND THE FREEDOMS WE CHERISH IN OUR BUSINESS AND PERSONAL LIVES. LET'S KEEP IT THAT WAY. THERE'S NO REASON WHY WE CAN'T.