Lexington, Kentucky
October 16, 1968
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Business Roundup

I have been asked -- I suppose "told" would be the more descriptive word -- to be the leadoff man in this evening's program. In preparing my remarks, I was reminded of the story about a leadoff speaker who had a similar assignment. As the story goes, the speaker was told that his remarks should be designed to serve the function of a lamp post for a drunkard: the speech should provide support but not illumination. In the few minutes available to me, I shall attempt to provide some support for the distinguished speakers scheduled to follow me. And if I'm successful, perhaps I'll provide a little bit of illumination, too.

Since the middle of the year, many of us have waited impatiently for signs that the economy was slowing down from the frenetic pace of the recent past. As you all know, at midyear, in response to President Johnson's repeated requests, the Congress passed legislation that imposed a surtax on personal and corporate incomes and a ceiling on Federal spending. The fiscal restraint program was specifically designed to "cool off" the economy, which had been expanding at an excessive and inflationary pace over the previous year or so. Thus far, the effects of fiscal restraint have been modest at best. Nevertheless, I think there are now clear cut indications that fiscal restraint is beginning to take hold.

In the third quarter of this year, which ended just two weeks ago, ~~we estimate that~~ GNP increased by $18 billion, ~~something in the order of $15 or $16~~

~~billion,~~ at a seasonally adjusted annual rate. The implications of this amount of increase should be considered very carefully. For one thing, taken by itself, an $18 billion ~~a $15 or $16 billion~~ quarterly gain in GNP represents a very healthy rate of advance. Moreover, the gain was considerably larger than most of us had generally expected earlier. Only a month or so ago, for example, most competent observers were predicting a third quarter increase in GNP in the order of $10 to $12 billion. The unpredictable behavior of the consumer is the major reason that the economy was stronger than expected. Confronted with higher taxes, consumers reduced their rate of saving and took on additional debt to finance an exceptionally high volume of spending.

Nonetheless, viewed against the earlier inflationary pace, the ~~$15~~ $18 ~~or $16~~ billion increase in GNP in the third quarter was ~~significantly~~ below the $22 billion increase recorded in the second quarter. More importantly, there was evidence that the economy was less ebullient as the third quarter came to a close than it was when the quarter opened at midyear, thus suggesting the moderating tendencies that I referred to earlier. At our bank, we expect the slower pace of economic activity now in train to continue through the rest of this year and into early 1969. To be more specific, we expect that GNP will increase less in the fourth quarter ($11 billion) than in the third quarter (~~$15 or $16~~ $18 billion), and still less in the first quarter of 1969 ($7 billion) than in the fourth quarter of 1968. We then anticipate renewed strength in the economy, and expect that in

the second half of 1969, the economy once again will be moving smartly and vigorously upward.

Given this expected pattern, I am less concerned about recession than inflation: The real threat to our economy seems to me to be "underkill" rather than "overkill". That is, the primary concern is whether the economy will slow down sufficiently to allow us to achieve the objectives of the fiscal package enacted in June, namely, to curtail inflation and restore balanced and sustainable economic growth.

In view of the great uncertainties that lie ahead, it will not be an easy task to achieve balanced and sustainable economic growth. These uncertainties include, among other things: the results and implications of the national election; the uncertainty of the outcome in Vietnam; the uncertainty about international developments in Eastern Europe, the Middle East, and elsewhere; and the recurring uncertainties about the actual course of Federal government spending, in view of all of the other uncertainties on the domestic and international fronts. In an environment of such monumental uncertainties, it is difficult -- in fact, it is foolhardy -- to attempt to project with great precision the expected path and performance of the economy or to attempt to fine tune the economy through minor adjustments in the monetary-fiscal policy mix.

One thing, however, seems to me to be very clear: our most important economic task in the period ahead is to arrest the inflationary forces that have run roughshod in the economy in the past year or so.

The international position of the United States -- in particular, our foreign trade situation -- demands that we curb these inflationary forces; and our domestic economy requires it, in order to prevent the emergence of additional inequities, distortions, and imbalances in the economy.

If we fail to stop the inflation, and fail to anesthetize the inflationary psychology now deeply imbedded in the thinking of consumers and businessmen generally, then we run the serious risk of returning to a "boom and bust" cycle at home and a complete deterioration of the dollar in world markets. The cost of failure is far greater than the price of a moderate dose of preventive medicine to counter inflation.

For this reason, I would hope that the Federal Reserve will keep a moderately firm rein on monetary policy, that the Federal government will continue to seek ways to reduce unnecessary expenditures, and that the mix of fiscal and monetary policy will not be eased until the back of inflation is finally broken. For the same reason, I would hope, also, that the new Administration and the new Congress will exercise prudent restraint in designing programs for the years ahead. In addition to all of this, we will need the cooperation of leaders, like yourselves, to hold the line within reasonable bounds in the matter of prices and wages, wherever and whenever possible. A major effort of everyone -- in the Federal Reserve, in Government, in business, in agriculture, and elsewhere -- will be required to eradicate inflation from our economic life, and to restore moderate, balanced, and sustainable economic growth. The job can be done, provided we all cooperate in the task.