

VANGUARD CLUB BREAKFAST

JULY 12, 1990

8 A.M.

ECONOMIC OUTLOOK AND THE ROLE FOR MONETARY POLICY

- I. DELIGHTED FOR OPPORTUNITY TO MEET WITH THE VANGUARD CLUB. LAST TIME WE MET WAS ON JANUARY 7, 1982.
- A. JANUARY, 1982, WE WERE IN MIDDLE OF A DEEP RECESSION--AS A RESULT OF FEDERAL RESERVE POLICIES, ADOPTED AT A MEETING OF THE FOMC ON OCTOBER 6, 1979, DESIGNED TO CURB DOUBLE DIGIT INFLATION THAT RESULTED FROM THE EXCESSES OF THE 1970'S.
- B. NOVEMBER, 1982, MARKED THE BEGINNING OF THE LONGEST SUSTAINED PERIOD OF PEACE TIME ECONOMIC EXPANSION IN OUR NATION'S HISTORY-91 MONTHS OR 7 1/2 YEARS--GROWTH RATE HAS

AVERAGED APPROXIMATELY 4 PERCENT AT AN ANNUAL RATE IN REAL TERMS OVER THIS PERIOD.

C. UNEMPLOYMENT HAS BEEN REDUCED FROM OVER 10 PERCENT TO THE PRESENT RATE OF 5.2 PERCENT WHILE 20 MILLION NEW JOBS HAVE BEEN CREATED.

D. AT THE SAME TIME THE UNIFIED BUDGET DEFICIT HAS RANGED FROM 210 B TO THE PROJECTED 160 B FOR THE CURRENT FISCAL YEAR, ACCUMULATING AN ADDITIONAL 1 1/2 TRILLION OF DEBT TO OUR TOTAL FEDERAL GOVERNMENT DEFICIT.

E. INFLATION RECEDED FROM THE DOUBLE DIGIT RATES OF THE LATE 1970'S TO 3 TO 5 PERCENT LEVEL.

II. CURRENT CONDITIONS CAN BEST BE CHARACTERIZED AS "CONTINUED SLOW GROWTH" WITH THE 1990 AND 1991 ECONOMY PROJECTED TO GROW 1 1/2 TO 2 1/2 PERCENT IN REAL TERMS AND WITH INFLATION REMAINING IN THE 4 TO 5 PERCENT RANGE.

III. ROLE OF THE FEDERAL RESERVE

THE ANNOUNCED GOAL OF MONETARY POLICY IS TO PUT INTO PLACE THOSE POLICIES DESIGNED TO ACHIEVE PRICE STABILITY OVER A LONGER PERIOD OF 3 TO 5 YEARS.

A. PRICE STABILITY IS DEFINED AS WHEN "THE EXPECTED RATE OF CHANGE OF THE GENERAL LEVEL OF PRICES CEASES TO BE A FACTOR IN INDIVIDUAL AND BUSINESS DECISIONMAKING.

THIS DOES NOT NECESSARILY MEAN A CONSTANT ZERO RATE OF INFLATION BUT DOES IMPLY A DISINFLATION FROM THE CURRENT 4 TO 4 1/2 PERCENT RATE TO AT OR NEAR ZERO.

B. THE FED HAS ANNOUNCED ITS INTENTION TO ACHIEVE A "SOFT LANDING" I.E.: TO SLOW THE ECONOMY TO A LEVEL BELOW ITS MAXIMUM NONINFLATIONARY GROWTH RATE IN ORDER TO

ACHIEVE PROGRESS TOWARDS PRICE STABILITY
WHILE AT THE SAME TIME AVOIDING RECESSION.

C. THE NATURAL RATE OF UNEMPLOYMENT IS THOUGHT
TO BE ABOUT 5 TO 5 1/2 PERCENT WITH MAXIMUM
NONINFLATIONARY REAL GROWTH AT ABOUT 2 1/2 TO
3 PERCENT.

D. THUS, THE OBJECTIVE IS TO ACHIEVE REAL GROWTH
BELOW 2 PERCENT THEREBY PROVIDING SOME SLACK
IN OUR RESOURCE UTILIZATION INCLUDING AN
INCREASE IN THE UNEMPLOYMENT RATE ABOVE THE
NATURAL RATE.

E. WE PROJECT GROWTH IN 1990-1991 TO BE BETWEEN
1 1/2 AND 2 PERCENT WITH UNEMPLOYMENT RISING
TO 5 1/2 TO 6 PERCENT.