ECONOMIC AND SOCIAL MAN
IN TODAY'S ENVIRONMENT

by

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As I look around this room, I sense there are two kinds of people here this evening. On the one hand are those concerned <u>primarily</u> with how our economy is structured to turn out goods and services. They are primarily--as the text book puts it--<u>Economic</u> Men.

Then there are those concerned <u>primarily</u> with how human beings relate to each other socially. Leon Sullivan is an outstanding, and outstandingly successful, practitioner of this concern. He, and others like him, are primarily <u>Social</u> Men.

Each of us, of course, is <u>both</u> Economic Man and Social Man. It would be obviously wrong to make the lines more distinct than they really are. Yet the mixture is different in each of us, and it is this relationship between Economic Man and Social Man that I want to examine briefly this evening.

One of the causes of unrest today is that Economic Man and Social Man appear to be in conflict. This conflict gives rise to differences <u>among</u> us--from person to person; and <u>within</u> us--it makes us all a little schizophrenic.

I could give many illustrations, but let me focus on one particularly close to me. This is the current effort to curb inflation without having a recession. This is a most difficult and subtle undertaking in which the Federal Reserve is playing a key role.

Economic Man is greatly worried about inflation. What we now have is, after all, the most severe inflation in two decades. It has been with us for five years and many are afraid that it's not really going to be brought under control. Inflationary psychology is deeply embedded, and there is still a credibility gap about the determination and ability of public policymakers to root it out. Economic Man sees this situation as a grave threat to our system. It diverts incentive and energy from producing goods and services to beating the inflation game. It distorts relationships among workers, managers, and consumers. It puts severe strain on financial institutions. It invites onerous controls. And eventually it leads to collapse. As I read him, Economic Man is telling the Federal Reserve: hold on until you really get inflation licked. If this means recession, then let's pay the price now rather than a much bigger one later.

But the problem is that some have to pay a much higher price than others, and they are usually the least able to pay. This is where Social Man sees the problem differently. He is concerned about losing momentum toward social justice, a momentum which was gaining in the past decade. Progress was slow and unsatisfactory, but it was progress. Now there is uncertainty and disillusionment. In this situation, Social Man is focusing on who will bear the burden of the fight against inflation. When unemployment rises, as it must when the economy slows down, the impact tends to be greatest among the disadvantaged. The unskilled worker is laid off first. Efforts to recruit trainees from the hard core are suspended. From his vantage point, Social Man is more inclined to trade some inflation for jobs.

The Federal Reserve enters this arena as guardian of the dollar--at least this is our traditional image. This image is of an institution committed not only to preserving the dollar as a symbol of financial power, but as an evidence of integrity in promises to pay and confidence in the stability of the economy. Accordingly, we have taken extremely firm measures to cool off the economy. In the last half of 1969, growth of the money supply was stopped completely. Banks and other financial institutions can testify to the tightness of money. Economic growth (after adjustment for price changes) actually declined slightly in the last quarter of 1969 and will do the same in the first half of this year. The Federal Reserve has been living up to its image.

A new face of the Federal Reserve, however, has been more apparent in recent weeks. I say "new" because the general public is just now becoming aware of a concern that is always in the Fed's mind about overdoing restraint. The Federal Reserve has eased money slightly to avoid pushing the economy into a serious recession.

Actually, the Fed was becoming increasingly allergic to recessions as the 1950's progressed. One reason for this was the growing concern about social inequities and how they became aggravated by recessions. People making decisions in the Fed have always been Economic Men; they are increasingly also Social Men.

Here the dilemma comes to a head. If inflation is not curbed, untold damage to the economy can result. Moreover, certain people can be severely damaged. Ten per cent of the population now consists of those over 65, most of them on fixed incomes.

At the same time, if the effort to stop inflation brings on a recession, other people are hurt. Seven and a half per cent of the population are working poor, many of them likely to lose the meager jobs they now hold. There are 829,000 Negro teenagers in the labor force, 25 per cent of them unemployed; a recession pushes the possibility of a job still further away.

How to weigh the economic and social costs of inflation vs. recession? Nobody has a formula, but the Fed must do it. We are doing it by judgment, and this judgment is subject to all the biases, good intentions, and blind spots inherent in any human decision. The awful part of the decision are the stakes involved; the irony of it is that somebody--some individuals, businessmen, state and local governments--must be hurt.

So much for the problem. What is the solution? There is a basic solution that will minimize this apparent conflict between the way Economic Man and Social Man see the problem. It is to take social action that enables us to make our economy more stable. Let me elaborate.

We need first to build more and better buffers between the disadvantaged and recessions--buffers like minimum income maintenance and adequate unemployment compensation. The Federal Reserve and other public agencies then would be less inhibited by fear of the social repercussions of recessions. We could feel much freer to move vigorously against inflation.

And, second, we need to improve the ability of the disadvantaged to compete. We need not only Americans for Competitive Enterprise, but Americans for Competitive People. If the poor and the nonwhites can be provided a good education and good training, they can better hold their own if a recession comes along.

So you don't have to be a bleeding-heart liberal to advocate social programs to improve the lot of the disadvantaged. The hardest-nosed Economic Man among us could accept this approach as one of the best means of reducing the economic as well as social cost of achieving a stable economy.

This solution, of course, is not original with me. It has been discussed actively in Government for some time. With support from all of us, programs could be legislated and implemented. It is too late for them to be of much use in the current situation but they could help greatly next time.

But parts of the solution also lie close to home. Let me mention two examples. One has to do with Philadelphia schools; the other with OIC. Both concern efforts to make people more productive and self-sufficient; both need help from the business community.

We need to marshal the financial expertise in this community to solve the fiscal problems of Philadelphia schools. It is true that roots of the problem extend well beyond Philadelphia, but concerted financial planning at the local level would help to avoid the kind of *ad hoc* improvisations that have produced the present situation. We at the Federal Reserve Bank are undertaking an impartial study of the prospects for income and outgo in hopes that it will be helpful to the community in evaluating the problem and doing something about it.

A second need is to bring business expertise to bear in helping OIC solve its financial problems. A start has been made in the formation of an Industrial Advisory Council under the chairmanship of Ed Dwyer who, among other achievements, is a Director of the Federal Reserve Bank. One of the recommendations being made to this Council is to put relationships between OIC and local industry on a more businesslike basis. OIC would enter into contracts with local firms to supply trained personnel for entry-level jobs, work with supervisors in preparing the way, and then follow up after the trainee is employed. The scarce resource in the future is going to be trained manpower, and this is a resource which industry can well afford to pay for.

There are many other ways in which improvement in the social environment can have beneficial effects on the economy. Many of these are ways in which business concerns in the Philadelphia area can play a major part.

My message this evening, therefore, is that profit-oriented, competitive-enterprise business types have a real stake in taking action to improve social conditions--not just for humanitarian reasons; not just because it would make for more efficient use of human resources; but because we are likely to be living in an economy with a persistent tendency toward inflation. If the Federal Reserve is to be able to do its part to combat this tendency, it cannot forever be inhibited by a fear of grave social consequences. Economic Man can help assure his own self interest in a viable economy by joining hands with Social Man.

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