Speech given by Chairman G. William Miller before the National Press Club, Washington, D. C., June 1978.
(from THE AMERICAN BANKER, June 12, 1978, p.4,7, & 9.)

I do want to say that it is a special pleasure for me to address the National Press Club today because this is my first appearance. I'm surprised to be here, just as you are surprised to have me, because I never expected to be a banker of any kind. And certainly I never expected to be a central banker.

It's true that the Wall Street Journal headlined my appointment with "William Who?" But it's also true that my secret ambition, at the end of my four-year term as chairman, is to find a repeat of that headline in all of your publications . . . "William Who?" If at that time no one knows or cares who is chairman of the Federal Reserve, then America will be enjoying an unparalleled period of prosperity without inflation and with a strong dollar.

I will be forgotten, but the world will be better off.

In the meantime, conditions are otherwise. The past dozen years have been characterized by dramatic shocks and discontinuities. The war in Viet Nam was divisive. The state of domestic tranquility was interrupted by civil disorders. Failure to pay for that war planted the seeds of inflation. The treat of inflation led to imposition of direct wage and price controls which proved to be both inequitable and ineffective.

The international monetary system broke down. With controls holding on the lid, the United States economy was reflated, building up a head of steam in the kettle. When the wage and price controls were removed, the steam blew off. The double-digit inflation and double-digit inflation rates.

To compound the difficulties, the oil boycott ushered in a five fold increase in world petroleum prices. The Watergate incident, and its aftermath, led to a general distrust of all institutions public and private. Finally, there was the great recession of 1975, with 9% unemployment and the greatest economic distress since the Depression of the 1930s.

Now we are in the fourth year of economic recovery from those troubled times. The level of prosperity has advanced considerably. Social and political conditions have become more stable. Yet, in the face of progress, there remains nagging uncertainty. This is not because of any lack of agreement on economic goals. There is universal accord that our objectives should be full employment, price stability and a sound dollar.

The uncertainty arises because many have come to question whether those goals can be achieved.

America's economic goals can be achieved. The means to do so are at our disposal. All it requires is the will. All that is needed is the realization that there is a confluence in our individual self-interest that compels us toward a common effort. Divided, we shall realize none of our goals. United, we shall accomplish all.

Inflation is now our most serious domestic problem. It is the No. 1 issue not because it has precedence over the quest for full employment but because, under present circumstances, it is the primary obstacle to achieving full employment. Inflation is inextricably linked with unemployment. Our hopes for full employment on a continuing basis depend upon wiping out the virulent disease of inflation.

Inflation destroys values and incomes and dries up job-creating investments, impairs the prospect for new housing and other construction and breeds recessions.

Perhaps the best way to illustrate the clear and present danger of inflation is to consider the consequences for young people who are graduating this month from America's colleges and universities. If inflation should be permitted to continue at the present annual rate, expected to be 7% or more this year, then when today's college graduates reach normal retirement age, the dollar they now hold will be worth less than a dime. At age 65, the dollar of today's graduate will be worth less than 10 cents. We cannot let that happen to our young people or to Americans of any age, or to the world. We simply must prevail.

The value of the dollar is related to inflation. The decline in the value of the dollar since last September has caused a worldwide concern. The reason for the slide can be traced to the record U.S. trade and current account deficits and to the level and persistence of U.S. inflation rates. The decline in the dollar itself adds to inflationary pressures as the goods we import cost more, and reduced competitive constraints on domestic products.

The U.S. has a special responsibility to maintain a sound and stable dollar. It is the currency for most international trade and finance. It is the principal reserve asset for the world's monetary system. The dollar is therefore the key to world economic progress and, in our own self-interest, we need a sound dollar to dampen inflationary pressures here at home.

As the world becomes more interdependent, the role of the dollar will be a continuing challenge. The bridging actions taken in recent months have helped stabilize the dollar and it has regained some of the lost ground. More important, most important perhaps, a stable dollar over the long term depends upon creating a clear trend toward lower inflation and reduction in our international deficits.

One important factor in all of these considerations is energy. America was fortunate to be able to develop as a nation by utilizing the seemingly boundless resources of a vast, almost unpopulated continent. The availability of abundant and inexpensive energy fueled the growth of a great industrial economy. But with 6% of the world's population consuming 30% of its energy, it was inevitable that a day of reckoning would come. The forces of supply and demand came into play with a vengeance.

In 1973, the U.S. imported $8 billion in oil products. Last year it was $45 billion. This contributed to the large U.S. trade deficit and to the pressure on the dollar. The task ahead is to convert our industrial, commercial, residential, transportation and public infrastructures into more-energy-efficient systems. We need to conserve present energy reserves, to reduce dependence on foreign petroleum and to change over to alternate, more economic energy sources. This process will certainly take more than a decade or longer.

It is clear that our economic problems are interrelated. Inflation contributes to the decline of the dollar. The decline of the dollar contributes to inflation. Inflation drives up interest rates and breeds recessions, which cause unemployment. Unemployment causes large Federal deficits which contribute to inflation. Our task is to break the vicious circle.

In endeavoring to do so, we can learn from history — but the lessons of the immediate past are not encouraging. Perhaps it is time for us to take new directions to help shape a stronger America and a better world.

One such new direction would involve a conscious shift in the philosophy for U.S. economic policy from demand or consumption management to supply or investment management. Let me cite two periods when leading world powers have been subjected to hyperinflation.

The first occurred in the 16th century, Spain. The discovery of the New World gave Spain access to vast amounts of gold and silver. Gold from the New World introduced massive unearned purchasing power into Spain which drove prices up perhaps a thousand per cent. That purchasing power did build great palaces and did provide the most elegant life style that had ever been experienced up to that time in Europe. However, the use of resources was for consumption, with little attention to investments for the future. So, by 17th century Spain had run through its wealth and was economically barefoot.

Is there a parallel in our 20th century experience? Through the printing presses there has been a massive creation of unearned money and credit. U.S. has built the most affluent nation ever known, with the highest standard of living for the greatest number of people. Is this but another example of overindulgence in consumption? Will we neglect investment and deplete our capacity for future generations? Will the legacy of our time be an economic desert?

A second new direction would be to shift resources from the public sector to the private sector. The present percentage of gross national product represented by Federal government expenditures and state and local government expenditures has grown steadily until it may have reached the point of being counterproductive. During the last decade it has become apparent that government spending does not always produce the results — economically or socially — and may not be the most effective way of reaching our desired objectives.

Amidst growing disenchantment, a more promising course would be to return more of the spending decisions to individuals and to businesses, where the cumulative effect of thousands and millions of private initiatives would be more efficient in sustaining and expanding economic progress.

The new directions for economic policy should include specific strategies and quantitative targets to give all of us a clear picture of where we are going. With such a blueprint, it would be possible to evaluate all proposed policies and actions as to their contribution toward achieving the established goals.

Perhaps this could best be understood by designing a model economy that would represent the ideal condition sought within a reasonable time, perhaps five or six or seven years. Then our economic policies could be directed on a steady course to reach those targets as we decide upon them in our model. The components of such a model might include the following:

First, a balanced budget with full employment. With the steps already taken or planned, the budget deficit for fiscal year 1979 is now expected to be $50 billion or less, down from the original $60 billion. The trend should be continued with reduction to less than $40 billion for fiscal year 1980, for less than $20 billion in 1981 and for a balanced budget in 1982.

Second, the percentage of GNP represented by Federal expenditures should be reduced gradually over the five- to seven-year period from 22% of GNP to 20%. Even though the Federal government would still be spending more, such a program would mean spending $50-$75 billion less than otherwise would be the case, and these resources could be shifted back to the private sector.

Third, should be a policy to achieve a substantial increase in business fixed investment. The U.S. has been neglecting its capital base, the issue of investment for the future, the explanation of Spain in the 16th century. We are falling behind other principal nations. Japan spends 15% of its GNP for capital investment, Germany 21%. United States, 8 or 9%.

Over the decades, we are falling behind in our productive capacity, our efficiency, our productivity and our technology. One technique in stimulating more capital investment would be a substantial liberalization of depreciation guidelines so that the cash flows from risky investments would justify the investment.

Later there could be the possibility of examining other capital formation areas for stimulation for private investors and for entrepreneurship. But, overall, the goal should be over the five- or seven year period to increase our capital spending from 9% to 12% of GNP.

Fourth, we should have a policy as to housing which again has, in many periods, fallen behind our demands. In the next five years it would be appropriate to see housing increased by 75,000 or 100,000 units per year each year until we reach the levels that would be consistent with our national needs.

Fifth, we should have a vigorous program for export, with a definite goal to increase our exports from 7% of GNP to 10%, which would go very far in correcting the balance-of-payment deficits which plague us and which threaten the value of the dollar.

Sixth, as our program progresses, and as we have the capacity to shift resources to the private sector, we should be prepared for additional tax reductions for individuals consistent with the goals to balance the budget, but also consistent with reducing government expenditures and giving the expending decisions back to people.

Seventh, we should be more serious than we yet have been about regulatory reform to remove the nonmonetary and fiscal aspects of government action from their inflationary impact.

And eighth, we should have a definite commitment to reduce inflation on a steady basis, at the rate of reduction of one-half to three-quarters of a per cent per year until we reach our goal of price stability, full employment and a sound dollar.

These are eight points of new directions on a strategy that could see us overcome in a reasonable period, an attainable period, all of those terrible diseases which now threaten our vitality.

I must say to you that since I have been in Washington, most of my attention has been directed to the short-term problem. The dilemma we face at the Federal Reserve is trying to react against inflation in the short term, and the necessity that we find a coordinated policy of fiscal monetary policies to be sure that the Federal Reserve and the monetary policy is not left to do the job alone. A great deal of progress has been made in that regard. It is extremely encouraging to see the change of attitudes in Washington and to see the specific concrete steps that have been taken along these lines.

But we still face a very trying period because in the next few quarters we will face the test of being able to restrain inflationary pressures enough to avoid the dislocations that otherwise will result while not slowing down our economy into a recession, and this will require the best skills that we can marshal from all those who participate or are involved with the government. And from all those who have management and financial responsibility in the private sector.

Beyond that, the opportunity for our longer-range strategies can be brought into play.

My message today is inflation is a terrible problem. We must conquer it. In the short term we have a very difficult task to tread our ways through a narrow passage. In the longer run, with a united nation, we have great prospects to achieve our goals.

And if we do, economic stability, full employment, sound dollar will not only contribute to our well-being but it is the only sure way that we will have peace and prosperity throughout the world. ■