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Remarks by

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Thank you Ambassador Warner. President Strauss, ladies and gentlemen. It's not surprising that I should make my first official appearance outside of the United States in Zurich. By an improbable course of events I'm now involved as a banker, and if one is dealing with money, one should come to where the money is. So, immediately, I rushed <u>here</u>.

A couple of weeks ago I had the good fortune to be invited to address a forum on monetary policy at Brown University in Providence, Rhode Island, where I have made my home for 22 years. I came from the airport directly to the forum expecting to find a small gathering of old friends who had nothing better to do on Saturday morning. Instead, I found a thousand people packed into and overflowing the hall. It was remarkable that anybody would come out on Saturday morning, in June, in Rhode Island, to hear about economics and monetary matters. All the economics professors were amazed too.

But that gathering and this gathering remind me of an experience of Governor Al Smith. He was a rather flamboyant Governor of New York some time ago. He loved to make public speeches, and he would do so on any occasion. One day he was driving along the Hudson and he passed by Sing-Sing, a famous

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State institution. He said to the chauffeur, "Pull in there. I'll have the warden round up a group and I'll talk to them." So he pulled in, the warden assembled all the inmates in the prison compound, and the Governor got up and started out with, "My friends." Then he thought, "That won't read too good in the New York Times." He quickly changed to "Fellow citizens." But then he thought, "My goodness, these people are felons, they don't even have the right to vote." So he quickly shifted again, and said, "Glad to see so many of you here!"

I hope you're not here under the same duress! But I am greatly encouraged and very grateful for such a tremendous turn-out. I really am overwhelmed at such a response. There is one positive aspect to it. Ed Strauss mentioned that no new decisions will be made today in Switzerland with all of the decision-makers here. The positive side of that is that no mistakes will be made today either.

I must ask you one thing before I address you, and that is to keep everything I say in confidence because the New York markets are not yet open!

But I would like to chat with you for a few moments about some of the issues we have been and are facing, what we have been

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trying to do about them, and some of the future possibilities for all of us to consider.

It's obvious why we have a large turnout here today, and it's obvious why I am here. That is because it's apparent we have an interdependence in the world and we can no longer afford the luxury of operating in isolation. We must be sensitive to the needs and wants and aspirations of all of the countries of the world, and we've got to find a way for all nations to work in harmony.

The United States is now in the fourth year of economic recovery from the Great Recession of 1974-75. That recovery is aged by usual terms. Yet, to my mind, we're only on the threshold of realizing our true potential -- provided we can clearly see our goals and resolutely march in unison with a common purpose to achieve them.

The American economic goals are rather simple, and are universally understood and accepted. Those goals are to achieve full employment, price stability, and a sound and stable dollar. Of course, those are not the only goals for our nation -- they are not the only goals for the world -- but they are the goals for the economy of the United States, and, because of their

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importance and because of the American interaction with other countries, the achievement of these goals is important to people in Switzerland and to other people throughout the world.

Before proceeding, let me reassure you about how these three goals relate one to the other. There sometimes is misunderstanding about American policies, and concern that we may be overcommitted to certain objectives that may be inconsistent with general stability. That is not so. All three of our economic goals are interrelated. We cannot have one without the other. No single goal can be achieved on a continuous basis unless we achieve all the others. There is no way to have full employment if we have high levels of inflation. High rates of inflation bring disinvestment, followed by economic downturn, and there would be no way to maintain full employment. There is no way to have price stability if there is high unemployment because of the ethical commitment of our nation: we would incur large and inflationary federal deficits to cushion the distress of unemployment. And there is no way to have a declining dollar without feeding the forces of inflation that in turn bring on unemployment -- and so on.

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The three economic goals are related. It's very important to recognize that our commitment in the United States is not to achieve just one goal, but to achieve them all at the same time.

In creating employment, we have made considerable progress. During the past year we've added over four million new jobs in our economy, and reached record levels of employment. And we now have the highest percent of our work-age population employed that we have ever had in the United States. We have 58.6 percent of our adult population employed, higher than almost any other industrial nation in the world.

That seems, perhaps, to be at variance with the high level of unemployment that you read about. It's true that we have unemployment of about 6 percent, but our work force has changed rather dramatically in the last few years. One reason for this is demographic change -- the baby boom of World War II that recently came to maturity and joined our work force. Another is the constructive change in the role of women in society, which is bringing more women into full competition for employment. And another is the force of inflation that causes more families to seek multiple incomes.

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For all those reasons we've had a record growth in the labor force and now have over a hundred million people actively employed or seeking work. On the positive aspect is the fact that in the face of these new aspirations, the United States has been able to achieve this record level of jobs. It is clear that we are well ahead of our targets in reducing unemployment in the United States.

And it is for this reason that we've had to turn our attention and concentrate more on the serious problem of inflation, the solution to which is essential if we are to maintain and to achieve our employment goals. Inflation has now been recognized as the most serious domestic problem that we face. It represents a clear and present danger; and there is no doubt that the current rate of inflation is unacceptable in every way.

To illustrate how deadly the inflation disease is in the United States, let me remind you that this is the season for college graduations, and that all the young people coming out of our universities and colleges in the United States today certainly face an uncertain future if inflation continues. Should inflation continue at the current rate for the working lifetime of these young people, then when they reach normal retirement age their

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dollar of today would be worth less than a dime. Their dollar would be worth less than ten cents.

There is no way that we can let that happen to those young people, there is no way that we can let that happen to Americans of any age, and there is no way we can let that happen to the world. It's essential that we overcome the inflation disease. And we will.

Another deep concern in the United States is the matter of the value of the dollar. I want to make it absolutely clear that the United States has a deep commitment to a sound and stable dollar. We have a responsibility, as a nation whose money is the principal currency for trade and commerce in the world and the principal reserve asset for the world monetary system, to maintain the stability that allows the world economy to operate on an orderly basis. For fear that we might be perceived to lose interest in that responsibility, let me remind you that we also have a tremendous <u>self</u>-interest in the value of the dollar.

A declining dollar disrupts international commerce and hurts the United States. A declining dollar interrupts and disturbs international investment, which hurts the United States. A declining dollar feeds inflation into the American economy,

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working against the deep commitment we have to wipe out inflation. The decline of the dollar since last September will add three-quarters of a percent to our inflation rate in the United States this year; and we cannot allow that to continue. A declining dollar raises issues about the price of petroleum which is so critical to our economy; we cannot afford to face escalation in the price of petroleum as an offset to the decline of the dollar. And it is clear that national security is tied up with the value of the dollar. And so, in every sense -- in terms of economics and of national security -- Americans have a self-interest in protecting the value of the dollar. There should be no doubt about our determination to see that we do keep it sound and stable.

But what have been America's immediate reactions to some of the problems, at least those that I have experienced in my three months in Washington? It was apparent that we needed to make some responses in connection with the dollar, and we have made two kinds of responses. One has been bridging actions -- those kinds of actions that assure orderliness in markets, and discourage speculation and over-shooting, and assure smooth and orderly adjustments. These bridging actions have taken the form

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of direct intervention through a swap arrangement with the Bundesbank. We've also marshalled more resources to intervene if necessary, making available large amounts of dollars in order to acquire other currencies, and displaying the willingness to sell SDR's and gold if necessary to combat disorderly markets.

We've also taken monetary actions in our respective countries with the result that interest rate differentials have made it more attractive to maintain dollar holdings. These are temporary actions; I assure you they are serious ones, but they will not correct the fundamentals.

So we are also addressing the fundamentals. The fundamental question of the value of the dollar relates to inflation and to international balances in trade and current accounts. Inflation obviously does affect the value of the dollar, and it is here that we are taking our most vigorous action. But it is also important that we correct our deficit in trade and in current accounts. Here, the most important and immediate issue is that of energy, and this is being given increasing attention and increasing priority as a means to bring us back into a better balance that will assist in assuring a sound value for the dollar.

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Let me shift, however, from these particulars to comment for just a few moments about what we are doing in the war against inflation. The first thing that the Federal Reserve has done is to respond quickly in its monetary actions to emphasize restraint. Our task is a difficult one, because we must exercise sufficient restraint to counter inflationary forces but not so great as to trigger a recession that would work against our interests and cause considerable distress for world economies.

It is for that reason that the Federal Reserve has endeavored to convince all of the other economic policy makers that the problem of inflation cannot be left to the Federal Reserve alone. The monetary authority of the United States cannot solve the problem without support from the fiscal side and from the other elements of our economy. It is for this reason that we are gratified with the positive response that we have seen in the United States from all sectors. The Administration has responded affirmatively, the Congress has responded positively, and attitudes have changed tremendously in the last three months.

The President's anti-inflation program was announced on April 11, just two months ago. It was the start of a process, not an effort to solve all the problems at once. It was the start of

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a process to marshal the resources of our nation to fight inflation. The immediate actions the President took included: a freeze on the federal executive payroll; a reduction in pay increases for federal employees; introduction of greater fiscal discipline in taxing and spending; an increase in the supply of certain products, such as timber and meat, to counter shortages and price increases; more vigorous attention to the energy problem, indicating that he would take administrative action if legislative solutions were not forthcoming in a reasonable time; initiation of a strong export program; and a call for the private sector to participate in a broad based deceleration effort. These actions have been expanding. The President's speech is somewhat like good wine: it has improved with age as its various elements and components have developed and as support has begun to grow.

Look at what has happened recently. The President has agreed with Congressional leadership to change the economic plan for fiscal year 1979. Already the Congress and the President have agreed on a new taxing program that would reduce the amount of the tax cut and defer it, thus reducing the federal deficit by eight or nine billion dollars. And, just recently, it has been announced that the President is calling for additional

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reductions in federal expenditures next year so that the deficit in fiscal year 1979, which was originally estimated, just three months ago, at $60 billion, will now be less than $50 billion. That's a rather significant and important change.

Also, while the President called upon the private sector to participate, it was questioned in some circles as to whether he would find adequate cooperation. But major corporations in increasing numbers, and some unions as well, are announcing that they will cooperate. They see their self-interest linked to efforts to wring inflation out of our economy.

Lest you think this is a purely voluntary effort, let me remind you that there are substantial sanctions in case the private sector does not cooperate in this effort. The sanctions for private industry are that inflation will accelerate, real profits and real incomes will decrease, there will be a decline in investment, there will be economic distress, and thus aggregate profits over time will be far less than otherwise.

But there is a corresponding reward: if there is a willingness to impose constraint now in the private sector and to decelerate in pricing and compensation decisions, then there will be greater likelihood of continued economic expansion and

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prosperity, which is essential for business growth and business profitability. Aggregate profits over the next few years will be far greater in real terms.

So, as to the immediate course ahead, we've now charted a series of policies. Inflation is the main target. There is coordination between fiscal and monetary policy. And, to the extent that there is increased discipline on the fiscal side, pressures on the monetary side will be reduced and there will be increased prospects for continued expansion in the years ahead. But it is important that both monetary and fiscal policies be disciplined, that we act prudently, and that we act to wring out inflation without creating a recession.

With this behind us, perhaps the time is now at hand to look at how to establish longer-term strategies to solve the problems on a more permanent basis. I would suggest to you the time may be at hand to consider some new directions. The problems we face today in the world have been built up over a dozen years. We need to rethink the policies that have brought us to this improbable condition and to look at new concepts and new directions that will work over time to bring us back to the kind of stability and growth that we need and desire.

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I would suggest consideration of two major new policies which require the conscious shifting of our thinking in the United States from past patterns to new patterns. The first is to change our thinking from "demand" or "consumption" management of our economy, to "supply" or "investment" management. This would be an important shift in attitude with long-range implications.

The second major shift in policy would be a conscious decision to reverse the present trend and move resources back from the government into private hands -- in the belief that we will obtain more efficiency, more effectiveness, by having decisions made in the private sector rather than in the government sector.

One approach to looking at these new policy directions might be to construct a model economy as our aim for five or seven years from now, and to adopt policies which would carry us on a constant path toward achieving that model in due course.

Let me suggest some of the elements that might be considered in such a model. One would be to move constantly and consistently toward a balanced federal budget. The recent action to reduce the FY-79 budget deficit to $50 billion or

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less is reassuring. We should now proceed on a course to reduce that deficit below $40 billion in the next fiscal year, to below $20 billion in the next year, and to a balanced budget in FY-1982. This is a sensible, workable, achievable schedule.

The second element would be the reduction of federal expenditures over time relative to the total economy. One possibility would be to set a target to reduce federal expenditures from 22 percent of GNP to 20 percent over five or seven years. This means that when we reach that model sometime in the future we would have shifted $50 or $75 billion out of the government and back into the private sector. It would have positive long-range implications.

A third element would be to follow-up on the emphasis toward investment and away from consumption. The United States has been under-spending on investment. In the sixteenth century, Europe experienced a hyper-inflation because of the discovery of the New World. In Spain, a nation that benefited from the introduction of massive amounts of gold from the New World, prices were bid up a thousand percent by the introduction of this unearned purchasing power. Spain created the most elegant society that Europe had ever seen, but it lived off its wealth. It invested too little, and in the seventeenth century it was economically barefoot.

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In the twentieth century, the United States with help from the printing press has grown into one of the most elegant nations ever created, with considerable affluence for a great many people. In doing so it has emphasized consumption. The test now before us is whether we are going to reinvest our capital and provide the productive capacity and efficiency and productivity that will assure continued prosperity in the twenty-first century. I would suggest that our spending of eight or nine percent of GNP on business fix investment is below what we need to sustain a sound economy. Over five to seven years we should begin to move that level of expenditure up to 12 percent of our GNP. It would be a major change; we would still be at a lower level than in Germany, but we would be far ahead of our past experience. And such a process would counter inflation, because our new investments would increase productivity, lower the unit cost of production, be more energy efficient, and work to support our economic growth objectives.

A fourth element in our new model might be a substantial increase in American exports. America has been exporting about seven percent or a little less of its GNP. Over the next five to seven years, a gradual buildup of our exports -- to 10 percent

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of GNP -- would make a major contribution to the betterment of conditions in the world. If we couple that with an absolute commitment to free and fair trade, and if we counter and overcome the forces of protectionism, and if we increase our capacity to balance our current account and to relieve the cost pressures from imported oil and to absorb products from other nations, we will have taken all the steps that contribute to a better balance in the world economy.

A fifth item in our model might be to revise our tax policies in the United States over the same period of time, consistent with our schedule toward a balanced budget. In order to shift resources out of the Federal Government and back to the private sector, we do need a program for reducing taxes on individuals and on capital. In this way, we can generate new opportunities for entrepreneurship, for venture, capital, that are so important in creating the vitality and the technology for a growing and prosperous economy.

A sixth element -- it is perhaps a domestic problem but important -- is to be sure that we maintain a strong housing and construction industry. We need to increase our housing output by 75,000 to 100,000 units per year in each of the next five years.

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A seventh element might be to become more intense in efforts to relieve the cost burdens of government regulation. We all know that the President is committed to this, but we now need to make it a reality -- that is, deregulating the areas where the public benefit is not justified by the cost and disruption of production and enterprise.

And, of course, the eighth element is to be absolutely committed over this period of time to wash out inflationary forces. To be realistic, we can reduce inflation at a rate of 1/2 to 3/4 percent a year in the early years; as we gain momentum, perhaps this can accelerate. But over this period of time we can and we must reduce inflation as we once did in the first half of the sixties to a level that is negligible.

Well, these are some thoughts. They do not yet represent government policy. They represent items for debate and for consideration, items for you to think about and to react to. They could be the basis for building a consensus on where to go from here and on how to shape U. S. policies that will lead America on a sure path to achieve our basic economic goals.

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What we need to achieve our goals is to bring unity to our nation once again. It's clear why we have become divisive; I need not go over the elements that have created disunity over the last 10 or 12 years. We know that the Vietnamese War, the disruptions of controls, the Watergate incident, have all had their effects. But we also know that in the fight against inflation Americans are gathering together again in a common purpose, to fight a common enemy, for a common good. And with the confluence of self-interest, a nation that has had the resilience to live through the past 12 years, and still be as strong as it is, has enormous power to achieve the goals that I have outlined.

With American unity comes a new opportunity for greater unity among all of our friends and allies. I already sense, in the last three months, an improvement in cooperation and understanding and respect and mutual desire to work together. And therefore, I come to Switzerland today -- recognizing that there will be many difficult days ahead and many difficult tasks to face -- with a deep sense that we are beginning to form ourselves to march together to achieve our worldwide goals.

Thank you very much.

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