Remarks

by

G. William Miller

Chairman of the Board of Governors

Federal Reserve System

Before the

Aluminum Association

Mayflower Hotel

Washington, D.C.

October 25, 1978

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We live in a world of change. Aluminum itself, it seems to me, represents a tremendous force for change. In a historic sense, it is a relatively new metal, but it has revolutionized many technologies and made possible a great number of accomplishments. It's an innovative industry, and one in which you are providing leadership and continuing to find useful, new applications.

But in thinking about the world of change, we must think about broader changes than in just one single industry. There has been a tremendous change in technology in the last 40-50 years that has transformed the whole world, and we can never go back to a world without the changes wrought by technological revolution.

We've also had great demographic changes. We are now a society with both more younger and more older people--older because of increased longevity, and younger because of the baby boom following World War II that is just now coming to maturity--and that has created new strain in our society and a new mix between those who produce and those who depend upon society. The transformation from an agrarian to an urban society has changed the structure of families and has affected our social condition. There have been tremendous political changes: we've seen the birth of hundreds of new nations, a complete change in the world order that preceded World War II; and we are searching for a new, stable order that can deal with the great forces that affect mankind.

We have also faced many economic changes that continue to test our skill in meeting our obligation to provide for the well-being of all of the world's peoples. It is remarkable, given these changes,

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that we have such a close national consensus on our own economic objectives. We want full employment, price stability, and a sound dollar. The problem is not in knowing what we want, but in knowing how to get it--how to achieve these goals in the face of a persistent and world-wide plague of inflation.

Inflation is clearly our most serious problem. Inflation destroys values and incomes. It dries up job-creating investment, impairs the prospect for new housing and other construction, and breeds recession. It creates financial strains for individuals, businesses and governments, causes higher interest rates, and disrupts international trade and the stability of the dollar. It is especially hard on the poor, the elderly, and those who live on fixed incomes. In short, inflation is the most disruptive force in our economy today. It is the cruelest of all taxes.

The international value of the dollar is also linked to inflation. The slump of the dollar on foreign exchange markets during the past year can be traced to the record U.S. trade and credit account deficits, and to the level and persistence of U.S. inflation. The decline of the dollar itself adds to inflationary pressures, as the goods we import cost more and competitive constraints on domestic producers are reduced.

The United States has a special responsibility to maintain a sound currency. The dollar is the predominant unit of exchange in international trade and financial transactions. It is the principle reserve asset for the world's monetary system. The dollar, therefore,

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plays a key role in the health and progress of the world economy. And in our own self-interest, we need a sound dollar to avoid disruptions in our pattern of international trade and investment, as well as to dampen inflationary pressures here at home.

Thus, it is imperative that we mount an effective attack on our inflationary problem. We must recognize that this problem was long in building and will not be eliminated overnight. The roots of the current inflation can be traced back at least a dozen years to the failure to recognize the escalating cost of Viet Nam and to pay for it through higher taxes. The progressive acceleration of inflation since then has left a legacy of deep-seated expectations that condition all wage and price decisions in the economy. As a consequence, we find ourselves on a pointless and self-defeating treadmill of wages chasing prices and prices chasing wages. This process can serve no one's interest in the long run. The result of inflationary pressures is to create distortions in the economy that misdirect and dissipate our productive energies.

As inflation has accelerated, the fight against inflation has and must accelerate. Monetary policy has a key role to play in the war against inflation. Its principal instrument is the control of money and credit, restraint on the growth of money and credit to dampen excess demands and wring out inflationary pressures. But monetary policy has its limits. It is not possible for it to operate in isolation from the other forces that stimulate our economy. It is not possible for monetary policy to be managed on automatic pilot, on some simplistic course that will lead us out of our troubles.

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Nevertheless, monetary policy does have a key role to play. Let me review briefly the objectives of monetary policy during my brief tenure in Washington. During this time we've been endeavoring to do several things: to slow the growth rate of money and credit; to slow the growth rate of the economy so that it is more consistent with a sustainable pattern free of inflationary forces; to change the rate of speed smoothly, avoiding disruption and dislocation; to maintain a balanced economy, avoiding an uneven burden of restraint such as was placed on the housing market in '74; to avoid recession as we apply the restraint; and to coordinate with other government economic policies, recognizing the disadvantages of letting monetary policy fight inflation alone.

Monetary policy cannot do the job alone. If we were left as the only restraining influence during a period of stimulative fiscal policies then the degree of monetary restraint would have to be so severe as to bring the economy to its knees. On the other hand, should the Federal Reserve decide to accommodate inflation by printing the money to validate it, then we could postpone that kind of crunch on the economy; but it would come later and more severely. And so it is imperative that we walk a narrow path, find a balance between lack of restraint and excess restraint. And it is imperative that we unleash the entire capacity of our economic system to deal with inflation, rather than rely solely on monetary policy.

Let me just review briefly some of the components in the full arsenal of weapons to deal with inflation. First, fiscal policy;

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second, incomes policy; third, reduction of regulatory burden; fourth, revitalization of productivity; fifth, a balance in our international accounts; and sixth, a monetary policy that complements and supports all these actions.

In the case of fiscal policy, let me say that some progress has been made so far this year. When I came to Washington in March, it was contemplated that the growth rate of the economy in real terms for this calendar year would be 4-3/4 per cent. Through the application of new restraints, both monetary and fiscal, it now appears that that growth rate will be reduced to 3-3/4 per cent, thus dampening down the demand that could fuel inflation. In March, it was contemplated that the budget deficit for FY 79--the year just begun--would be more than $60 billion. Today we are contemplating a budget deficit for FY 79 of less than $40 billion, a $22 billion reduction in fiscal stimulus over that short period of time. And the effect is immediate. During this quarter, the U.S. Treasury will borrow some $7-9 billion less than it would borrow had the plan contemplated in March been carried out. So we are beginning to see the fruits of these new policies.

But this is only the opening skirmish. The forces of inflation, as I've said, have built up over at least 12 years. It will take many years to wring inflation out. It depends not on our treating the symptoms, but on our curing the fundamental causes. Success requires exercise of fiscal discipline over 5-7 years. It will test our will, our determination, our skill, our economic and our political systems. But last night we heard the President commit himself to

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fiscal discipline and to a policy of reducing Federal expenditures and reducing Federal deficits. It is now possible to see us on course toward a balanced budget by FY 81--certainly by fiscal year 1982.

It is now possible to see us on a course for the next 5 to 7 years of reducing the relative role of the Federal government in our economy, bringing down Federal expenditures from some 22 per cent of gross national product to something like 20 per cent and releasing about $75 billion back into the private sector where the cumulative effect of decisions of individuals and businesses will be far more effective in our economy. So fiscal policy is now on a course of new discipline, new restraint; that is a change in direction since the beginning of this year.

A second weapon is an incomes policies--wage and price moderation through voluntary efforts. The President made his first initiative on an incomes policy on April 11, when he called on the private sector to cooperate in a program of deceleration. Last evening, he called for a broader based, more specific program of restraint and moderation in wage and price actions, establishing a series of standards consistent with other policies to be introduced and seeking cooperation in adhering to these standards through a series of incentives to compliance.

This, of course, is the area where your cooperation, individually and collectively, is so important. It seems to me that it is reasonable, in a time when there is such urgent need for unified national action on a critical problem, that we all make the sacrifice

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and create the will to bind ourselves together, to commit ourselves to these kinds of directions.

If the speed limit in the United States was defined simply as "reasonable speed," I'm sure that with today's well-engineered automobiles most of us would drive 80 miles per hour. But because we want to conserve energy and conserve lives, we set a speed limit of 55 miles per hour and we actually drive close to 55 miles per hour. Similarly, the President has set up some standards, and it seems reasonable to me that, with your cooperation and with the cooperation of labor unions, we can adhere to those standards while we buy the time for fiscal, monetary, and other policies to have their effect. This gives us the running room to make the changes in our economy that are essential if we are to eradicate inflation.

A third policy has to do with reduction of the regulatory burden. I will not dwell on this topic. It is a difficult task, one that may require some redirection through legislation as well as through administrative action. While it is essential that we move with great force and determination in this area, it would be unrealistic to expect immediate results in its effects upon inflation. But it is important that we do something in this area.

The fourth item that I mentioned is the issue of productivity. During the first twenty years after World War II productivity gains in the United States were the highest in the world, running about 3-1/3 per cent per year. During those 20 years, with productivity gains at that level, it was possible for the United States to achieve

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annual increases in real income for all Americans. But for the past ten years we have fallen woefully behind. In the period from 1967 to 1972 our productivity gains dropped to 2 per cent a year. That was bad; that was disastrous. But since then they have been even worse. Over the last five years, productivity gains in this country averaged only 1-1/3 per cent, contributing substantially to the process by which inflation becomes embedded in our system and making it more and more difficult for us to break the cycle of wages chasing prices and prices chasing wages. It is therefore essential that the government, with your cooperation, direct its policies toward initiatives that will revitalize business fixed investment. It is the only way I know in which we can once again achieve the productivity gains that were typical for 20 of the last 30 years.

For some time now we have been falling woefully behind the other industrial nations in replenishing our capital stock. The Japanese spend over 20 per cent of their gross national product on business fixed investment, on the replenishment of plant and equipment and on modernization and new capacity; the Germans, 15 per cent. In the United States, for too long, only 8 or 9 per cent of the gross national product has been going into capital investment. It is essential that we raise this to at least 12 or 13 per cent over a sustained period so that not only can we achieve productivity gains, but also so that we can contribute to more energy efficient production, become more competitive in world markets, renew our technology, and once again become the dominant manufacturing and industrial nation of the world.

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Fifth, we need to address ourselves to balancing our international accounts. It is the combination of our trade and current account deficits and higher rates of inflation that has driven the dollar down to such low levels within the past year.

Here, we need to address a number of important issues. One of the most important is our energy policy. Slowly, we have come to grips with the need to establish a national energy policy that will contribute both to conservation and to a shift to more economical and more indigenous sources of energy so that we reduce our dependence on foreign petroleum and other energy supplies. In 1973, this nation imported $8-1/2 billion of petroleum; this year, it will be over $40 billion. In 1973 we had a trade balance; this year we will have a trade deficit of over $30 billion.

Fortunately we are beginning, slowly, to address this problem. For a long time we were a sparsely populated continent with abundant and inexpensive energy, and we did not build our industries, our transportation or our housing to deal with energy shortages or direct our efforts towards energy efficiency. Time has caught up with us, and for the next 10 or 15 years we will be devoting ourselves to reconstructing our industrial base, our transportation base, our housing stock, our commercial building stock to be more energy efficient, in line with other industrial nations that have been short of energy. But, because we are a heterogenous nation with many regional differences, it has been excrutiatingly difficult to hammer out national energy policies. Some have finally been worked out by the 95th Congress that has just

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adjourned. While this is by no means all that needs to be done, it is at least the beginning, and we must now rededicate ourselves to completing the process and to perfecting our energy programs in the new Congress.

Parallel with the energy program, we need to launch a continuing and increasingly effective promotion of exports. While we strive to reduce our dependence on foreign petroleum and until we can make the shift, we must also strive to increase our exports to fill the gap. We have not been an exporting nation by history or by interest. Once we make up our minds that this is important, we can achieve a great deal. It is essential that we now make a complete commitment to an effective export effort so that we can build up our exports from 6-1/2 per cent of GNP to 10 per cent over the coming years. In this way, we can help close the gap.

Finally, we need the responsible monetary policy that the President spoke of last evening as part of this critical effort to deal with inflation consistent with his new initiatives. Last evening, in his speech, the President committed himself to a balanced, concerted and sustained program to fight inflation. Each of those words are important. There is no short, simple, sweet answer. It is going to take a balanced program involving all of these new initiatives. It is going to take concentrated and concerted effort. It is going to take staying power, ability to sustain our effort over years without tiring, without weakening, without losing confidence or faith. And this is going to test all of us.

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In presenting this particular approach, the President did call for a responsible monetary policy as part of the arsenal of weapons. I want to assure you this evening that the Federal Reserve will meet that responsibility. We will use our full resources to play a prudent role in drying up inflationary pressures. We will assure that, from a monetary point of view, we take the necessary medicine to cure the disease of inflation now so that we can avoid more serious maladies later. It is important that we all understand that there can be no delay, no procrastination, no easy way out. We're going to have to face some difficult months and some difficult quarters, and some difficult years, if we are to constrain the forces of inflation and avoid greater difficulties, greater dislocations, and greater hardships later.

I know that many people in America assume that this is all the government's problem; the government is the cause of inflation; the government is the medium to cure inflation. Well, the government certainly is the key, and it has certainly done many things over many years that have built up the problem. It is also true that the government must provide the leadership and thus take strong measures. But it is also true that this nation cannot accomplish anything without the cooperation and participation of the private sector.

To paraphrase from Pogo I would say, "I have met the government, and he is us." If there is any culprit in the government, then it is up to us to influence that government, to guide that government, to persuade that government, to cooperate with that government, to

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enter into a partnership with that government, so that the total force of this nation deals with this urgent crisis.

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