Remarks by

G. William Miller

Chairman

Board of Governors of the Federal Reserve System

at

Commencement Exercises

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Governor Grasso, President Fitzgerald, members of the faculty, friends of Fairfield University, and members of the class of 1979, graduate and undergraduate. I'm proud to be a graduate with you.

My role in addressing this graduating class is both a privilege and a responsibility. It is a privilege to join in celebrating your accomplishments -- to pause and reflect on your new life ahead. It is also a responsibility to be adequately responsive, yet brief enough so as not to separate you too long from your hurried farewells to faculty and friends before you move on to take up the work of the world.

I understand that Governor Grasso holds the record for the most eloquent and the briefest commencement address. I cannot match your eloquence but, I'll try to match your brevity.

The Class of 1979 is the last class in a turbulent decade. The past dozen years have been characterized by dramatic shocks and discontinuities. The war in Vietnam was divisive. Failure to pay for that war planted the seeds of inflation which flourished on inadequate responses. The international monetary system broke down. To compound the difficulties, the 1973-74 oil boycott ushered in what developed into a seven-fold increase in world petroleum prices. The watergate incident and its aftermath led to a general distrust of all institutions, public and private. And then the great recession of 1975 produced the highest levels of unemployment and the most serious economic distress since the depression of the 1930's. So your developing years have been filled with far-reaching changes and stresses within our system.

During those years there have been powerful lessons to learn. One of the most pervasive is the lesson of limits -- the limits of ambition,

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the limits of power, the limits of resources, the limits of government. Perhaps we have also learned to appreciate even more the value of moral character in sustaining human progress.

Considering these events, it is no wonder that you have inherited a long agenda of unresolved issues. It is extensive and formidable indeed. I will reflect on only a few of the items that deserve your high priority throughout your careers.

One is energy. America was fortunate to be able to develop through utilization of the seemingly boundless resources of a vast, almost unpopulated continent. Availability of abundant and inexpensive energy fueled the growth of a great industrial economy. But with 6 percent of the world's population consuming 1/3 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 United States paid $8 billion for imported oil; last year, we paid almost $45 billion. This contributed to the large U.S. trade deficit and to the downward pressure on the dollar.

During the next quarter century, during which your leadership will be critical to this nation, we will have ended the era fueled by abundant and cheap petroleum. And we will need to make a major transition of a magnitude seldom experienced in history, from an industrial system based upon this form of energy to a new system based upon new sources and new technology. The task ahead is to convert our industrial, commercial, residential, transportation, and public infra-structure into more efficient energy systems. We urgently need to conserve present energy reserves, to reduce our dependence on foreign petroleum and on petroleum itself as a source of energy, and to change over to alternate

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and more economic energy sources. This process will take much of the remaining years of this century.

A second item that will be on your agenda for a long time to come is inflation. Today, America's most serious problem is inflation. And inflation is inevitably linked with employment and unemployment. Our hopes for economic well-being for all Americans depend upon wiping out this virulent disease. Inflation destroys values and incomes. Inflation dries up job-creating investments. Inflation impairs the prospects for new housing. Inflation breeds recession.

Perhaps the best way to illustrate the clear and present danger of inflation is to consider the consequences for you in your own lifetime. If inflation should continue at the rate we are experiencing this year, then when you reach retirement age -- say 40 years from now -- the dollar you now have in your pocket will be worth less than a nickel. We just cannot let that happen to you; we cannot let it happen to America; we cannot let it happen to the world.

During the short time I have been in Washington, just over a year, a comprehensive strategy has been developing to deal with inflation. A series of policy weapons has been mobilized to wage the war.

Fiscal policy has been redirected to reduce Federal deficits and to proceed promptly toward a balanced budget. Even more encouraging is the progress in reducing the relative role of Federal spending in our economy, a development which over the next few years promises to return more of the decision-making on spending and investing to private households and businesses -- to return those decisions to you.

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The economic weapons include an incomes policy to moderate price and wage increases until fiscal and monetary policies can have an effect on the underlying fundamentals.

There has also been a forceful policy -- in cooperation with other governments -- to assure a sound and stable dollar, and thus avoid the consequences from a weak dollar increasing the cost of essential imports.

Energy policies are being directed toward reducing our reliance on petroleum and developing new energy sources. Monetary policy has taken a stance of restraint, complementing other national policies, banking the fires of inflation, and seeking to adjust us to a more sustainable rate of economic progress while avoiding the pitfalls of an unnecessary recession.

In addition to the agenda of critical issues that you will face, you will also face, in many ways, some of the inherent conflicts within human society.

One of the conflicts is between the individual and the collective. Undue emphasis on self can be destructive. We see this in some reactions to the gasoline shortages. If every individual thinks only of himself, the effect of filling the gas tanks of 130 million cars and trucks will be to drain all the gas stations dry and create unnecessary hardships for everyone. On the other hand, the dangers of homogenization are equally great. As we become exposed to mass media and the similarity of products off our efficient production lines, we come too often to be like one another, and we lose individuality that is certainly essential to human dignity and progress.

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Another conflict is between the parochial and the universal; between nationalism and internationalism. We live increasingly in an interdependent world. America cannot achieve her aspirations in isolation. America cannot achieve your goals if it fails to make similar goals attainable to people throughout the world.

There is also the conflict between consumption and investment. We have become a super-consuming society, a throw-away society, seemingly prepared to gratify every wish. But we have glimpsed the limits. That preference for consumption cannot continue unless we invest something more in the capacity to produce.

In 16th century Spain, the introduction of unearned purchasing power from the gold and silver discovered in the new world built an elegant society of consumption. But nothing was invested, and so the heirs of that society went economically barefoot. In the 20th century, we have found the printing press as the source of unearned purchasing power, and we have continued to make available unearned credit so that we consume away our heritage. Unless we soon begin to put more back, then we may endow our heirs also with a barren landscape in which they are economically barefoot.

There is an old Chinese proverb that life is like a cookie jar: if you only take out and put nothing in, it is soon empty.

Despite the challenges you face, you can go forth today, Class of 1979, with a great sense of confidence. America is a remarkable land with great resilience and great strength. It is benefiting from an abundant harvest of bright, well-prepared young people here today who

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will provide the leadership, the knowledge, the skills, the determination, the will, to address and to resolve the issues and the conflicts

How fortunate we are today to stand witness to such bounty.

A young friend of mine made a personal decision some years ago to buy a $50,000 Ferrari. It was one of the most important things, in his view, that he had done, so he immediately proceeded to ask for special attention. He stopped by the local cathedral and asked the priest to come outside and bless his car. The priest said, "Why certainly my son, I'd be happy to bless it. But what is a Ferrari?" The young man didn't think it should be blessed by the uninformed, so he moved to the Espisopal cathedral, with the same consequences, and then on to the Synagogue, and so on. Always the answer was, "Yes my son, but what is a Ferrari?" Finally, he stopped at a rather new, modern church and spoke to the minister and asked, "Sir, would you be willing to come outside and bless my Ferrari?" There immediately ensued a wonderful discussion of dual carburetion, of displacement, of water injection, of disc brakes, of all those wonderful things. And finally, the minister said, "By the way my son, what's a blessing?"

A blessing is the love and concern of parents and friends and classmates and faculty and supporters of Fairfield University who have brought you to this happy day. A blessing is that you now will take your places in society, to help overcome the difficulties and to contribute toward achieving the economic well-being, social justice, and spiritual enlightenment of all people, which is essential if we are to enjoy peace and prosperity throughout the world.

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