Department of the TREASURY NEWS

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ADDRESS BY
SECRETARY OF THE U.S. TREASURY
G. WILLIAM MILLER
BEFORE THE AMERICAN BANKERS ASSOCIATION
NEW ORLEANS, LOUISIANA

It is a special pleasure for me to be with you this morning. Your invitation was extended to me in my role as Chairman of the Federal Reserve Board. I appreciate the opportunity to participate in my new capacity. And it is a particular privilege for me to be here in the distinguished company of the great Senator Russell Long of Louisiana and the great statesman Henry Kissinger.

CHALLENGE OF CHANGE

Your meeting here in New Orleans is being held as the decade of the 1970's draws rapidly to a close. It has been a decade marked by turbulent forces. Political and economic events of far-reaching consequences have cascaded one upon another, leaving an often breathless world to navigate uncharted waters.

In an era when change has been the norm, the pace of change has quickened. People and institutions, private and public, have been challenged to adapt rapidly or risk being left behind in the back-eddies of progress.

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YOUR OWN BANKING INDUSTRY HAS NOT BEEN IMMUNE FROM THESE FORCES. ON THE CONTRARY, YOU HAVE FACED A HIGH ORDER OF MAGNITUDE OF CHANGE, BOTH DOMESTIC AND INTERNATIONAL. THE NEW REGIME OF FLOATING EXCHANGE RATES, THE MAJOR SHIFTS IN INTERNATIONAL BALANCES FOLLOWING OIL PRICE SHOCKS, THE EMERGENCE OF NEW CREDIT AND FINANCIAL INSTRUMENTS BOTH WITHIN AND WITHOUT THE BANKING SYSTEM, THE AVAILABILITY OF ADVANCED TECHNOLOGY IN COMMUNICATIONS AND DATA PROCESSING, THE INCREASED VOLATILITY OF MARKETS, THE INTENSIFICATION OF COMPETITION, THE INADEQUACY OF SAVINGS AND CAPITAL FORMATION -- THESE, AND OTHER DEVELOPMENTS, HAVE PRESENTED A GREAT CHALLENGE TO THE AMERICAN BANKING SYSTEM.

IN THE FACE OF SUCH DYNAMICS, THE BANKING INDUSTRY HAS DEMONSTRATED REMARKABLE RESILIENCE, FLEXIBILITY, INNOVATION AND VIGOR. THE BANKER HAS BEEN A PERSON ON THE MOVE, STILL PRUDENT, BUT MODERN AND KEEPING UP WITH THE TIMES.

THE CHALLENGES CONTINUE, AND YOUR AGENDA FOR ACTION IS LONG. AMONG OTHERS ITEMS, THE TIME IS RIPE TO PHASE OUT INTEREST RATE CEILINGS UNDER REGULATION Q AND TO AUTHORIZE NOW ACCOUNTS NATIONWIDE. THE ADMINISTRATION IS EAGER TO WORK WITH YOU TO GAIN THE NECESSARY CONGRESSIONAL APPROVALS.

IN PARTICULAR, I WANT TO TAKE THIS OPPORTUNITY TO COMMEND YOU OF THE AMERICAN BANKERS ASSOCIATION FOR YOUR LEADERSHIP IN PROMOTING MONETARY IMPROVEMENT LEGISLATION IN THIS SESSION OF THE CONGRESS. THE DUAL OBJECTIVES OF REDUCING BURDENS ON MEMBER BANKS AND PROVIDING GREATER COMPETITIVE EQUALITY AMONG FINANCIAL INSTITUTIONS WILL HELP STRENGTHEN OUR BANKING SYSTEM. THE RECENT ACTION OF YOUR BANKING LEADERSHIP CONFERENCE IN REAFFIRMING ENDORSEMENT FOR THE CONCEPT OF RESERVE REQUIREMENTS ON TRANSACTIONS ACCOUNTS OF ALL FINANCIAL INTERMEDIARIES, WITH A LOWER RESERVE RATIO BELOW A CERTAIN DEPOSIT LEVEL, SHOULD PROVIDE MOMENTUM FOR FAVORABLE CONGRESSIONAL ACTION.

IN THESE DIFFICULT TIMES, I AM ESPECIALLY ENCOURAGED BY YOUR DEMONSTRATION OF COMMITMENT TO A STRONG, INDEPENDENT AND EFFECTIVE FEDERAL RESERVE SYSTEM.

IN LIKE VEIN, WE IN THE ADMINISTRATION ARE COMMITTED TO A STRONG AND EFFECTIVE DUAL BANKING SYSTEM. OUR NATIONS'S ECONOMIC PROGRESS DEPENDS UPON MAINTAINING YOUR STRENGTH AND YOUR VITALITY.

THE THREAT OF INFLATION

LET ME TURN NOW TO A BROADER LOOK AT OUR ECONOMY. OVERSHADOWING ALL ELSE IS THE HIGH AND PERSISTENT RATE OF INFLATION.

THE CAUSES OF INFLATION ARE MANY AND WELL KNOWN TO YOU. INFLATION HAS BUILT UP OVER THE PAST FIFTEEN YEARS. IT IS NOW DEEPLY EMBEDDED IN OUR ECONOMIC STRUCTURE. IT IS A CLEAR AND PRESENT DANGER TO OUR NATIONAL WELL-BEING.

INFLATION REDUCES REAL INCOMES AND VALUES; IT THREATENS OUR ABILITY TO PROVIDE EMPLOYMENT OPPORTUNITIES; IT DRIES UP JOB CREATING INVESTMENTS; IT IMPEDES PRODUCTIVITY; IT BREEDS RECESSION; AND IT FALLS MOST HEAVILY ON THOSE LEAST ABLE TO BEAR THE BURDEN.

THE WAR AGAINST INFLATION MUST BE OUR TOP PRIORITY. THERE IS NO QUICK OR SIMPLE SOLUTION. THE WAR MUST BE WAGED THROUGH A COMPREHENSIVE STRATEGY ON ALL FRONTS ON A CONTINUOUS BASIS.

WE DO HAVE AN INTEGRATED STRATEGY. WE ARE MARSHALLING ALL RESOURCES. WE ARE DIRECTING ALL ECONOMIC POLICIES TOWARD A TOTAL WAR AGAINST INFLATION.

AND MOST OF ALL, WE ARE DIRECTING OUR EFFORTS AT THE FUNDAMENTAL CAUSES OF INFLATION RATHER THAN JUST THE SYMPTONS.

I WOULD LIKE TO OUTLINE THE PRINCIPAL POLICIES WHICH TOGETHER MUST FORM THE MAIN FORCES FOR OUR ASSAULT.

FISCAL POLICY

FIRST, IS A DISCIPLINED FISCAL POLICY. THE CUMULATIVE EFFECT OF LARGE FEDERAL DEFICITS YEAR AFTER

YEAR HAS BEEN TO FUEL THE FIRES OF INFLATION. WE ARE DETERMINED TO APPLY FISCAL RESTRAINT AND MOVE AS QUICKLY AS POSSIBLE TOWARD A BALANCED BUDGET.

SOME PROGRESS CAN ALREADY BE REPORTED. IN 1976, THE FEDERAL DEFICIT WAS THREE PERCENT OF GROSS NATIONAL PRODUCT. THIS YEAR, IT WILL BE DOWN TO ONLY ONE PERCENT. UNLESS THE CURRENT RECESSION DEEPENS, WE SHOULD MAKE FURTHER PROGRESS NEXT YEAR.

EVEN MORE IMPORTANT IS TO GAIN BETTER CONTROL OVER FEDERAL SPENDING AND TO REDUCE THE RELATIVE ROLE OF FEDERAL EXPENDITURES IN OUR NATIONAL ECONLMY. IN 1976, FEDERAL SPENDING WAS 22.6 PERCENT OF GNP. THIS YEAR IT WILL BE DOWN TO ABOUT 21.5 PERCENT. AND WE INTEND TO REDUCE IT FURTHER.

THE NET RESULT, OVER TIME, OF REDUCED DEFICITS AND REDUCED EXPENDITURES AS A PERCENT OF GNP WILL BE TO RELEASE SUBSTANTIAL RESOURCES FOR THE PRIVATE SECTOR. THE SPENDING AND INVESTING DECISIONS OF INDIVIDUALS AND BUSINESSES WITH RESPECT TO THESE RESOURCES WILL BE FAR MORE BENEFICIAL TO OUR ECONOMY THAN CHANNELING THE SAME AMOUNTS THROUGH GOVERNMENT.

MONETARY POLICY

A SECOND WEAPON IN THE WAR AGAINST INFLATION IS A DISCIPLINED MONETARY POLICY. THE FEDERAL RESERVE HAS BEEN PURSUING A COURSE TO KEEP FIRM CONTROL OVER THE

GROWTH OF THE MONEY SUPPLY. THE OBJECT HAS BEEN TO REDUCE PROGRESSIVELY THE RATE OF GROWTH OF MONEY AND CREDIT IN ORDER TO STARVE OUT INFLATION.

AGAIN, THERE HAS BEEN SOME PROGRESS, AND GROWTH RATES HAVE SLOWED. FOR INSTANCE, THE INCREASE IN M-1 OVER THE PAST TWELVE MONTHS HAS BEEN HELD TO 4.9 PERCENT -- LESS THAN HALF THE INCREASE IN CONSUMER PRICES. BUT IN RECENT MONTHS, FOLLOWING THE LARGE INCREASE IN OIL PRICES IN THE SECOND QUARTER, THE GROWTH HAS BEEN MUCH MORE RAPID.

THE FEDERAL RESERVE HAS RESPONDED PROMPTLY TO COUNTER THE TREND AND TO DEAL WITH RECENT EVIDENCE OF RENEWED INFLATIONARY PRESSURES. ON SATURDAY EVENING, THE FEDERAL RESERVE ANNOUNCED UNANIMOUS APPROVAL FOR A SERIES OF COMPLEMENTARY ACTIONS. THE DISCOUNT RATE WAS INCREASED A FULL PERCENT, FROM 11 TO 12 PERCENT; A MARGINAL RESERVE REQUIREMENT OF 8 PERCENT WAS ESTABLISHED FOR "MANAGED LIABILITIES"; AND THE METHOD OF CONDUCTING MONETARY POLICY WAS REVISED TO SUPPORT THE OBJECTIVE OF CONTAINING GROWTH IN THE MONETARY AGGREGATES OVER THE REMAINDER OF THIS YEAR WITHIN THE PREVIOUSLY ADOPTED RANGES. IN ADDITION, THE FEDERAL RESERVE BOARD CALLED UPON BANKS TO AVOID MAKING LOANS THAT SUPPORT SPECULATIVE ACTIVITY IN GOLD, COMMODITIES AND FOREIGN EXCHANGE MARKETS.

These actions should serve to dampen inflationary forces and contribute to greater stability in foreign exchange markets.

PAY-PRICE POLICY

Fiscal and monetary restraint represent powerful weapons to attack the fundamental causes of inflation. But they take effect with some lag. Therefore, another important policy is the voluntary program to moderate pay and price increases and thus provide time for the other basic policies to take hold.

Because of widespread cooperation, most major corporations and most labor contracts have been in compliance with the voluntary standards during the first year. As a result, overall price and pay increases have been smaller than otherwise would have been experienced.

For the second year of the program, it was felt desirable to provide for greater participation by management and labor in the process of establishing and applying pay standards. This should help avoid inequities which otherwise may develop over time. A tripartite Pay Committee, to be chaired by John Dunlop, is therefore being established, with a first task of recommending pay standards for the period ahead.

In this connection, the Administration worked out a National Accord with American labor leadership in support of the war against inflation and providing for labor involvement in the pay-price program.

GOVERNMENT REGULATIONS

In battling inflation, we must not overlook the cost-raising actions of government. Among these are the costs of unnecessary regulation. We must intensify efforts to reduce the burden of government, and in particular the burden on the banking system.

But let me not raise false hopes. When I was at the Federal Reserve we launched Project Augeus -- to undertake the herculean task of cleaning out regulatory stables that seemed somewhat like the stables of Augeus that had gone uncleaned for thirty years. The effort continues; and I hope to launch a similar attack at Treasury.

But it is not easy. Much regulation is founded in statute, and while we can improve and shorten and clarify, we often need legislation to make real reductions in burden.

So it will take time, and will need your help and support. I would particularly welcome your suggestions and recommendations in this area.

INTERNATIONAL ECONOMIC POLICY

NOW LET ME TURN TO THE INTERNATIONAL SECTOR. A SOUND AND STABLE DOLLAR IS ESSENTIAL IF WE ARE TO ACHIEVE PRICE STABILITY IN OUR DOMESTIC ECONOMY.

A DECLINING DOLLAR INCREASES THE PRICES WE PAY FOR NECESSARY IMPORTS AND OTHERWISE CONTRIBUTES TO HIGHER PRICES HERE AT HOME.

THE INTERNATIONAL EXCHANGE VALUE OF THE DOLLAR IS ADVERSELY AFFECTED BY TWO BASIC FACTORS: INFLATION DIFFERENTIALS WITH OTHER COUNTRIES AND DEFICITS IN OUR BALANCE OF PAYMENTS.

THE CURRENT ACCOUNT POSITION OF THE UNITED STATES HAS BEEN SEVERELY IMPACTED BY THE TEN-FOLD INCREASE IN WORLD OIL PRICES SINCE 1974. CONSIDER THE CONSEQUENCES: IN 1973, THIS COUNTRY IMPORTED $8.5 BILLION OF OIL; THIS YEAR IT WILL BE ALMOST $60 BILLION.

BUT DESPITE THIS, WE HAVE MADE EXCELLENT PROGRESS TOWARD RESTORING BALANCE. IN 1978, OUR CURRENT ACCOUNT SHOWED A $14 BILLION DEFICIT. THIS YEAR, THE DEFICIT WILL BE REDUCED TO ONLY A FEW BILLION, EVEN AFTER ABSORBING AN INCREASE OF $16 BILLION IN THE COST OF OIL IMPORTS. AND NEXT YEAR, 1980, WE EXPECT A SUBSTANTIAL CURRENT ACCOUNT SURPLUS.

IN ADDITION, WE HAVE DEALT -- AND WE WILL IN THE FUTURE DEAL -- FORCEFULLY WITH UNWARRANTED EXCHANGE MARKET PRESSURES. IN THIS REGARD, STRONG MEASURES

WERE INTRODUCED LAST NOVEMBER 1, JUST A YEAR AGO. SINCE THAT TIME, WE HAVE ACHIEVED SIGNIFICANT PROGRESS IN STRENGTHENING THE DOLLAR EXCHANGE RATE. THE DOLLAR HAS MOVED UP AGAINST SOME CURRENCIES, DOWN AGAINST OTHERS, AND REMAINED STABLE AGAINST MOST. MEASURED AGAINST THE AVERAGE OF THE MAJOR INDUSTRIAL COUNTRIES, THE DOLLAR IS NOW ABOUT 5 PERCENT HIGHER THAN IT WAS A YEAR AGO. FROM THE VIEWPOINT OF THE OPEC NATIONS, IN RELATION TO THE OTHER CURRENCIES THEY USE TO PURCHASE THEIR IMPORTS, THE DOLLAR HAS INCREASED ABOUT 8 PERCENT ON AVERAGE FROM A YEAR AGO.

IT MIGHT ALSO BE NOTED THAT THE DOLLAR IS ABOUT 25 PERCENT HIGHER AGAINST THE JAPANESE YEN SINCE THIS TIME LAST YEAR.

NOTWITHSTANDING FAVORABLE CHANGES IN THE DOLLAR VALUE IN TERMS OF AVERAGES AND AGAINST SOME CURRENCIES, WE ARE DETERMINED TO MAINTAIN EXCHANGE MARKET STABILITY FOR THE DOLLAR IN TERMS OF INDIVIDUAL MAJOR CURRENCIES. IN PARTICULAR, SINCE MID-JUNE THE DOLLAR HAS BEEN DOWN SOMEWHAT IN RELATION TO THE DEUTSCHE MARK. WE HAVE THEREFORE BEEN GIVEN SPECIAL ATTENTION TO THIS SITUATION. CONSULTATIONS HAVE BEEN HELD WITH GERMAN OFFICIALS AT THE HIGHEST LEVELS TO ASSURE CLOSE COORDINATION OF COUNTER MEASURES.

The actions taken by the Federal Reserve over the weekend represent a positive response. By moving powerfully to assure better control over the expansion of money and credit, and to help curb excessives in commodity and other markets, the Federal Reserve will dampen inflationary forces and inflationary expectations and will contribute to greater stability in foreign exchange markets.

We will continue to monitor these markets carefully, and will be prepared to take other complementary actions when and if appropriate. We intend to maintain a sound dollar.

Energy Policy

Next is energy policy. The ten-fold increase in world oil prices has been a principal contributor to the acceleration of inflation during this decade. Oil price increases have come in two major waves: the first in 1974 following the oil embargo and the second earlier this year following the upheaval in Iran.

The recent price shock has had a destabilizing effect on the world's economy. On an annual basis, the 60 percent jump in oil prices will increase the import bill of the developed countries by almost $75 billion and the import bill of the developing countries

BY $15 BILLION. AS A RESULT, THE PROSPECTS FOR WORLD ECONOMIC PROGRESS ARE LESS PROMISING. THE OUTLOOK IS PARTICULARLY HARSH FOR THE POOREST NON-OIL NATIONS.

TO WIN THE WAR AGAINST INFLATION, IT IS ABSOLUTELY ESSENTIAL THAT WE REDUCE OUR DEPENDENCE UPON IMPORTED OIL AND THAT WE REDUCE OUR DEPENDENCE UPON OIL ITSELF AS A SOURCE OF ENERGY. THE FUTURE AVAILABILITY AND PRICE OF OIL IS TOO UNCERTAIN. WE DARE NOT RISK OUR NATION'S FUTURE ON SUCH A FRAGILE LINE.

IT IS IMPERATIVE THAT WE ESTABLISH OUR ENERGY INDEPENDENCE. IT IS ESSENTIAL TO OUR NATION'S SECURITY THAT WE GAIN CONTROL OVER OUR OWN DESTINY. IT IS URGENT THAT WE MOVE WITH ALL POSSIBLE SPEED. IT IS VITAL THAT WE PURSUE MULTIPLE OPTIONS SO AS TO ASSURE TOTAL SUCCESS.

FOR TWO AND ONE-HALF YEARS PRESIDENT CARTER HAS SOUGHT SUPPORT FOR A BROAD AND COMPREHENSIVE ENERGY PROGRAM TO ACHIEVE THOSE OBJECTIVES. BUT BECAUSE WE ARE A HETEROGENEOUS COUNTRY, BECAUSE SOME REGIONS ARE PRODUCERS AND OTHERS ARE CONSUMERS, BECAUSE SOME AREAS HAVE ONE OR ANOTHER FORM OF LOCAL ENERGY SUPPLY AND OTHERS ARE TOTALLY DEPENDENT ON OUTSIDE SOURCES, IT HAS BEEN EXCRUCIATINGLY DIFFICULT TO HAMMER OUT A NATIONAL ENERGY PROGRAM.

SOME IMPORTANT PARTS OF THE PROGRAM HAVE FALLEN INTO PLACE EARLIER, SUCH AS THE NATURAL GAS BILL ENACTED A YEAR AGO. NOW, REMAINING CRITICAL ELEMENTS ARE UNDER ACTIVE REVIEW BY THE CONGRESS.

THE PRESIDENT HAS RECENTLY TAKEN TWO MAJOR STEPS UNDER HIS OWN POWERS AND ON HIS OWN INITIATIVE. HE HAS DECONTROLLED DOMESTIC CRUDE OIL PRICES OVER THE NEXT TWO YEARS, WITH IMMEDIATE DECONTROL OF HEAVY OIL. AND HE HAS LIMITED OIL IMPORTS FROM NOW THROUGH 1985 TO NO MORE THAN 8.5 MILLION BARRELS PER DAY, THE LEVEL THAT PREVAILED IN 1977. THE PRESIDENT HAS ESTABLISHED AN EVEN LOWER IMPORT LIMIT OF 8.2 MILLION BARRELS OF OIL PER DAY FOR THIS YEAR.

THE PRIORITIES FOR OUR NATIONAL ENERGY PROGRAM ARE CLEAR.

FIRST, CONSERVATION. THIS IS THE SUREST, CHEAPEST, CLEANEST WAY TO REDUCE OUR DEPENDENCE ON OIL.

SECOND, INCREASING THE DEVELOPMENT AND USE OF CONVENTIONAL DOMESTIC SOURCES OF ENERGY, SUCH AS OIL, GAS AND COAL.

THIRD, INCREASING THE USE OF RENEWABLE ENERGY SOURCES, SUCH AS SOLAR, ALCOHOL, BIOMASS, WIND AND WOOD.

FOURTH, TO ASSURE LONGER TERM SUPPLIES, THE RIGOROUS DEVELOPMENT OF UNCONVENTIANAL DOMESTIC ENERGY SOURCES, SUCH AS SYNTHETIC FUELS FROM COAL AND SHALE AND UNCONVENTIANAL NATURAL GAS.

To provide capital resources for the overall program, a special excise tax -- the windfall profits tax -- has been proposed and has already passed the House. The purpose of the tax is to allocate the increased revenues generated by decontrol of domestic oil prices. A good part of the increased revenues will remain with the oil producers to provide the means for them to continue and expand production of conventional energy. Some of the increased revenues will also be allocated to the Energy Security Corporation to finance projects wholly in the private sector for the development of unconventional energy. These projects will be large scale ventures, with unusual risks, and would not likely be undertaken by private companies on the scale needed without government financial assistance. As an alternative, rather than seeking financing from the Energy Security Corporation, private companies will be able to take advantage of special tax credits for unconventional fuel production.

To round out the program, an Energy Mobilization Board has been proposed in order to shorten the time for obtaining permits for energy projects. We cannot afford unnecessary delays.

When fully in place, the energy program is expected to cut oil imports by more than 50 percent -- 4 to 5 million barrels per day -- by 1990. This will put us well on the way to energy independence.

Investment Policy

Finally, a few words about capital investments. For some time, our nation has given too much emphasis to consumption and too little emphasis to investment in productive facilities that make consumption possible.

We have fallen behind other leading industrial nations. Japan spends over 20 percent of GNP on capital investments; Germany over 15 percent. In the United States, we have been running at 10 to 11 percent. As a result, our productivity has lagged.

This must not continue, or else our competitiveness in world markets will be seriously impaired.

In coming months, therefore, we expect to be working to create conditions and incentives that will encourage the savings, investments and productivity that are so essential to economic progress with price stability.

Period of Austerity

The war against inflation requires discipline and restraint. This means that we must be willing to accept a period of austerity for Americans -- and work to see that such austerity is fairly shared --

SO THAT WE WILL BE ABLE TO ACHIEVE BALANCED GROWTH WITH PRICE STABILITY IN THE YEARS TO COME.

IT IS RIGHT THAT GOVERNMENT SHOULD LEAD THE WAR AGAINST INFLATION. BUT THE CAMPAIGN WILL MOST SURELY SUCCEED -- AND AT A FASTER PACE -- IF EVERY AMERICAN PLAYS HIS FULL PART. IT IS A TIME OF TESTING FOR OUR NATION AND FOR EACH OF US. YOUR HELP AND YOUR SUPPORT WILL MAKE A GREAT CONTRIBUTION TOWARD AN EARLY VICTORY.

CONCLUSION

IN CONSIDERING THIS MORNING THE MANY DIFFICULTIES WE FACE, I CANNOT HELP BUT REFLECT ALSO ON OUR MANY BLESSINGS.

SOME MONTHS AGO, THIS WAS BROUGHT VIVIDLY HOME TO ME. WATCHING THE STRUGGLE OF THE BOAT PEOPLE TO FIND A LIGHT IN A DARKENED CORNER FO THE WORLD, WATCHING THE EXTREME RISKS THEY ENDURED IN SEEKING TO REACH AN AMERICAN REFUGE -- SPOKE MORE ELOQUENTLY THAN I COULD OF THE LIVING REALITY OF THE AMERICAN DREAM.

MY PURPOSE IS TO DO THE VERY BEST I CAN TO ASSURE THE LASTING VITALITY OF OUR ECONOMIC SYSTEM, TO FIGHT AND TO WIN THE WAR AGAINST INFLATION, TO REINFORCE THE PRE-EMINENCE OF AMERICA AT HOME AND ABROAD.

AND TO HELP KEEP ALIVE THAT GREAT AMERICAN DREAM.

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In particular, I want to take this opportunity to commend you of the American Bankers Association for your leadership in promoting monetary improvement legislation in this session of the Congress. The dual objectives of reducing burdens on member banks and providing greater competitive equality among financial institutions will help strengthen our banking system. The recent action of your Banking Leadership Conference in reaffirming endorsement for the concept of reserve requirements on transactions accounts of all financial intermediaries, with a lower reserve ratio below a certain deposit level, should provide momentum for favorable Congressional action.

In these difficult times, I am especially encouraged by your demonstration of commitment to a strong, independent and effective Federal Reserve System.

In like vein, we in the Administration are committed to a strong and effective dual banking system. Our nations's economic progress depends upon maintaining your strength and your vitality.

THE THREAT OF INFLATION

Let me turn now to a broader look at our economy. Overshadowing all else is the high and persistent rate of inflation.

THE CAUSES OF INFLATION ARE MANY AND WELL KNOWN TO YOU. INFLATION HAS BUILT UP OVER THE PAST FIFTEEN YEARS. IT IS NOW DEEPLY EMBEDDED IN OUR ECONOMIC STRUCTURE. IT IS A CLEAR AND PRESENT DANGER TO OUR NATIONAL WELL-BEING.

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THESE ACTIONS SHOULD SERVE TO DAMPEN INFLATIONARY FORCES AND CONTRIBUTE TO GREATER STABILITY IN FOREIGN EXCHANGE MARKETS.

PAY-PRICE POLICY

FISCAL AND MONETARY RESTRAINT REPRESENT POWERFUL WEAPONS TO ATTACK THE FUNDAMENTAL CAUSES OF INFLATION. BUT THEY TAKE EFFECT WITH SOME LAG. THEREFORE, ANOTHER IMPORTANT POLICY IS THE VOLUNTARY PROGRAM TO MODERATE PAY AND PRICE INCREASES AND THUS PROVIDE TIME FOR THE OTHER BASIC POLICIES TO TAKE HOLD.

BECAUSE OF WIDESPREAD COOPERATION, MOST MAJOR CORPORATIONS AND MOST LABOR CONTRACTS HAVE BEEN IN COMPLIANCE WITH THE VOLUNTARY STANDARDS DURING THE FIRST YEAR. AS A RESULT, OVERALL PRICE AND PAY INCREASES HAVE BEEN SMALLER THAN OTHERWISE WOULD HAVE BEEN EXPERIENCED.

FOR THE SECOND YEAR OF THE PROGRAM, IT WAS FELT DESIRABLE TO PROVIDE FOR GREATER PARTICIPATION BY MANAGEMENT AND LABOR IN THE PROCESS OF ESTABLISHING AND APPLYING PAY STANDARDS. THIS SHOULD HELP AVOID INEQUITIES WHICH OTHERWISE MAY DEVELOP OVER TIME. A TRIPARTITE PAY COMMITTEE, TO BE CHAIRED BY JOHN DUNLOP, IS THEREFORE BEING ESTABLISHED, WITH A FIRST TASK OF RECOMMENDING PAY STANDARDS FOR THE PERIOD AHEAD.

IN THIS CONNECTION, THE ADMINISTRATION WORKED OUT A NATIONAL ACCORD WITH AMERICAN LABOR LEADERSHIP IN SUPPORT OF THE WAR AGAINST INFLATION AND PROVIDING FOR LABOR INVOLVEMENT IN THE PAY-PRICE PROGRAM.

GOVERNMENT REGULATIONS

IN BATTLING INFLATION, WE MUST NOT OVERLOOK THE COST-RAISING ACTIONS OF GOVERNMENT. AMONG THESE ARE THE COSTS OF UNNECESSARY REGULATION. WE MUST INTENSIFY EFFORTS TO REDUCE THE BURDEN OF GOVERNMENT, AND IN PARTICULAR THE BURDEN ON THE BANKING SYSTEM.

BUT LET ME NOT RAISE FALSE HOPES. WHEN I WAS AT THE FEDERAL RESERVE WE LAUNCHED PROJECT AUGEUS -- TO UNDERTAKE THE HERCULEAN TASK OF CLEANING OUT REGULATORY STABLES THAT SEEMED SOMEWHAT LIKE THE STABLES OF AUGEUS THAT HAD GONE UNCLEANED FOR THIRTY YEARS. THE EFFORT CONTINUES; AND I HOPE TO LAUNCH A SIMILAR ATTACK AT TREASURY.

BUT IT IS NOT EASY. MUCH REGULATION IS FOUNDED IN STATUTE, AND WHILE WE CAN IMPROVE AND SHORTEN AND CLARIFY, WE OFTEN NEED LEGISLATION TO MAKE REAL REDUCTIONS IN BURDEN.

SO IT WILL TAKE TIME, AND WILL NEED YOUR HELP AND SUPPORT. I WOULD PARTICULARLY WELCOME YOUR SUGGESTIONS AND RECOMMENDATIONS IN THIS AREA.

INTERNATIONAL ECONOMIC POLICY

NOW LET ME TURN TO THE INTERNATIONAL SECTOR. A SOUND AND STABLE DOLLAR IS ESSENTIAL IF WE ARE TO ACHIEVE PRICE STABILITY IN OUR DOMESTIC ECONOMY.

A DECLINING DOLLAR INCREASES THE PRICES WE PAY FOR NECESSARY IMPORTS AND OTHERWISE CONTRIBUTES TO HIGHER PRICES HERE AT HOME.

THE INTERNATIONAL EXCHANGE VALUE OF THE DOLLAR IS ADVERSELY AFFECTED BY TWO BASIC FACTORS: INFLATION DIFFERENTIALS WITH OTHER COUNTRIES AND DEFICITS IN OUR BALANCE OF PAYMENTS.

THE CURRENT ACCOUNT POSITION OF THE UNITED STATES HAS BEEN SEVERELY IMPACTED BY THE TEN-FOLD INCREASE IN WORLD OIL PRICES SINCE 1974. CONSIDER THE CONSEQUENCES: IN 1973, THIS COUNTRY IMPORTED $8.5 BILLION OF OIL; THIS YEAR IT WILL BE ALMOST $60 BILLION.

BUT DESPITE THIS, WE HAVE MADE EXCELLENT PROGRESS TOWARD RESTORING BALANCE. IN 1978, OUR CURRENT ACCOUNT SHOWED A $14 BILLION DEFICIT. THIS YEAR, THE DEFICIT WILL BE REDUCED TO ONLY A FEW BILLION, EVEN AFTER ABSORBING AN INCREASE OF $16 BILLION IN THE COST OF OIL IMPORTS. AND NEXT YEAR, 1980, WE EXPECT A SUBSTANTIAL CURRENT ACCOUNT SURPLUS.

IN ADDITION, WE HAVE DEALT -- AND WE WILL IN THE FUTURE DEAL -- FORCEFULLY WITH UNWARRANTED EXCHANGE MARKET PRESSURES. IN THIS REGARD, STRONG MEASURES

WERE INTRODUCED LAST NOVEMBER 1, JUST A YEAR AGO. SINCE THAT TIME, WE HAVE ACHIEVED SIGNIFICANT PROGRESS IN STRENGTHENING THE DOLLAR EXCHANGE RATE. THE DOLLAR HAS MOVED UP AGAINST SOME CURRENCIES, DOWN AGAINST OTHERS, AND REMAINED STABLE AGAINST MOST. MEASURED AGAINST THE AVERAGE OF THE MAJOR INDUSTRIAL COUNTRIES, THE DOLLAR IS NOW ABOUT 5 PERCENT HIGHER THAN IT WAS A YEAR AGO. FROM THE VIEWPOINT OF THE OPEC NATIONS, IN RELATION TO THE OTHER CURRENCIES THEY USE TO PURCHASE THEIR IMPORTS, THE DOLLAR HAS INCREASED ABOUT 8 PERCENT ON AVERAGE FROM A YEAR AGO.

IT MIGHT ALSO BE NOTED THAT THE DOLLAR IS ABOUT 25 PERCENT HIGHER AGAINST THE JAPANESE YEN SINCE THIS TIME LAST YEAR.

NOTWITHSTANDING FAVORABLE CHANGES IN THE DOLLAR VALUE IN TERMS OF AVERAGES AND AGAINST SOME CURRENCIES, WE ARE DETERMINED TO MAINTAIN EXCHANGE MARKET STABILITY FOR THE DOLLAR IN TERMS OF INDIVIDUAL MAJOR CURRENCIES. IN PARTICULAR, SINCE MID-JUNE THE DOLLAR HAS BEEN DOWN SOMEWHAT IN RELATION TO THE DEUTSCHE MARK. WE HAVE THEREFORE BEEN GIVEN SPECIAL ATTENTION TO THIS SITUATION. CONSULTATIONS HAVE BEEN HELD WITH GERMAN OFFICIALS AT THE HIGHEST LEVELS TO ASSURE CLOSE COORDINATION OF COUNTER MEASURES.

The actions taken by the Federal Reserve over the weekend represent a positive response. By moving powerfully to assure better control over the expansion of money and credit, and to help curb excessives in commodity and other markets, the Federal Reserve will dampen inflationary forces and inflationary expectations and will contribute to greater stability in foreign exchange markets.

We will continue to monitor these markets carefully, and will be prepared to take other complementary actions when and if appropriate. We intend to maintain a sound dollar.

ENERGY POLICY

Next is energy policy. The ten-fold increase in world oil prices has been a principal contributor to the acceleration of inflation during this decade. Oil price increases have come in two major waves: the first in 1974 following the oil embargo and the second earlier this year following the upheaval in Iran.

The recent price shock has had a destabilizing effect on the world's economy. On an annual basis, the 60 percent jump in oil prices will increase the import bill of the developed countries by almost $75 billion and the import bill of the developing countries

BY $15 BILLION. AS A RESULT, THE PROSPECTS FOR WORLD ECONOMIC PROGRESS ARE LESS PROMISING. THE OUTLOOK IS PARTICULARLY HARSH FOR THE POOREST NON-OIL NATIONS.

TO WIN THE WAR AGAINST INFLATION, IT IS ABSOLUTELY ESSENTIAL THAT WE REDUCE OUR DEPENDENCE UPON IMPORTED OIL AND THAT WE REDUCE OUR DEPENDENCE UPON OIL ITSELF AS A SOURCE OF ENERGY. THE FUTURE AVAILABILITY AND PRICE OF OIL IS TOO UNCERTAIN. WE DARE NOT RISK OUR NATION'S FUTURE ON SUCH A FRAGILE LINE.

IT IS IMPERATIVE THAT WE ESTABLISH OUR ENERGY INDEPENDENCE. IT IS ESSENTIAL TO OUR NATION'S SECURITY THAT WE GAIN CONTROL OVER OUR OWN DESTINY. IT IS URGENT THAT WE MOVE WITH ALL POSSIBLE SPEED. IT IS VITAL THAT WE PURSUE MULTIPLE OPTIONS SO AS TO ASSURE TOTAL SUCCESS.

FOR TWO AND ONE-HALF YEARS PRESIDENT CARTER HAS SOUGHT SUPPORT FOR A BROAD AND COMPREHENSIVE ENERGY PROGRAM TO ACHIEVE THOSE OBJECTIVES. BUT BECAUSE WE ARE A HETEROGENEOUS COUNTRY, BECAUSE SOME REGIONS ARE PRODUCERS AND OTHERS ARE CONSUMERS, BECAUSE SOME AREAS HAVE ONE OR ANOTHER FORM OF LOCAL ENERGY SUPPLY AND OTHERS ARE TOTALLY DEPENDENT ON OUTSIDE SOURCES, IT HAS BEEN EXCRUCIATINGLY DIFFICULT TO HAMMER OUT A NATIONAL ENERGY PROGRAM.

SOME IMPORTANT PARTS OF THE PROGRAM HAVE FALLEN INTO PLACE EARLIER, SUCH AS THE NATURAL GAS BILL ENACTED A YEAR AGO. NOW, REMAINING CRITICAL ELEMENTS ARE UNDER ACTIVE REVIEW BY THE CONGRESS.

THE PRESIDENT HAS RECENTLY TAKEN TWO MAJOR STEPS UNDER HIS OWN POWERS AND ON HIS OWN INITIATIVE. HE HAS DECONTROLLED DOMESTIC CRUDE OIL PRICES OVER THE NEXT TWO YEARS, WITH IMMEDIATE DECONTROL OF HEAVY OIL. AND HE HAS LIMITED OIL IMPORTS FROM NOW THROUGH 1985 TO NO MORE THAN 8.5 MILLION BARRELS PER DAY, THE LEVEL THAT PREVAILED IN 1977. THE PRESIDENT HAS ESTABLISHED AN EVEN LOWER IMPORT LIMIT OF 8.2 MILLION BARRELS OF OIL PER DAY FOR THIS YEAR.

THE PRIORITIES FOR OUR NATIONAL ENERGY PROGRAM ARE CLEAR.

FIRST, CONSERVATION. THIS IS THE SUREST, CHEAPEST, CLEANEST WAY TO REDUCE OUR DEPENDENCE ON OIL.

SECOND, INCREASING THE DEVELOPMENT AND USE OF CONVENTIONAL DOMESTIC SOURCES OF ENERGY, SUCH AS OIL, GAS AND COAL.

THIRD, INCREASING THE USE OF RENEWABLE ENERGY SOURCES, SUCH AS SOLAR, ALCOHOL, BIOMASS, WIND AND WOOD.

FOURTH, TO ASSURE LONGER TERM SUPPLIES, THE RIGOROUS DEVELOPMENT OF UNCONVENTIANAL DOMESTIC ENERGY SOURCES, SUCH AS SYNTHETIC FUELS FROM COAL AND SHALE AND UNCONVENTIANAL NATURAL GAS.

To provide capital resources for the overall program, a special excise tax -- the windfall profits tax -- has been proposed and has already passed the House. The purpose of the tax is to allocate the increased revenues generated by decontrol of domestic oil prices. A good part of the increased revenues will remain with the oil producers to provide the means for them to continue and expand production of conventional energy. Some of the increased revenues will also be allocated to the Energy Security Corporation to finance projects wholly in the private sector for the development of unconventional energy. These projects will be large scale ventures, with unusual risks, and would not likely be undertaken by private companies on the scale needed without government financial assistance. As an alternative, rather than seeking financing from the Energy Security Corporation, private companies will be able to take advantage of special tax credits for unconventional fuel production.

To round out the program, an Energy Mobilization Board has been proposed in order to shorten the time for obtaining permits for energy projects. We cannot afford unnecessary delays.

WHEN FULLY IN PLACE, THE ENERGY PROGRAM IS EXPECTED TO CUT OIL IMPORTS BY MORE THAN 50 PERCENT -- 4 TO 5 MILLION BARRELS PER DAY -- BY 1990. THIS WILL PUT US WELL ON THE WAY TO ENERGY INDEPENDENCE.

INVESTMENT POLICY

FINALLY, A FEW WORDS ABOUT CAPITAL INVESTMENTS. FOR SOME TIME, OUR NATION HAS GIVEN TOO MUCH EMPHASIS TO CONSUMPTION AND TOO LITTLE EMPHASIS TO INVESTMENT IN PRODUCTIVE FACILITIES THAT MAKE CONSUMPTION POSSIBLE.

WE HAVE FALLEN BEHIND OTHER LEADING INDUSTRIAL NATIONS. JAPAN SPENDS OVER 20 PERCENT OF GNP ON CAPITAL INVESTMENTS; GERMANY OVER 15 PERCENT. IN THE UNITED STATES, WE HAVE BEEN RUNNING AT 10 TO 11 PERCENT. AS A RESULT, OUR PRODUCTIVITY HAS LAGGED.

THIS MUST NOT CONTINUE, OR ELSE OUR COMPETITIVENESS IN WORLD MARKETS WILL BE SERIOUSLY IMPAIRED.

IN COMING MONTHS, THEREFORE, WE EXPECT TO BE WORKING TO CREATE CONDITIONS AND INCENTIVES THAT WILL ENCOURAGE THE SAVINGS, INVESTMENTS AND PRODUCTIVITY THAT ARE SO ESSENTIAL TO ECONOMIC PROGRESS WITH PRICE STABILITY.

PERIOD OF AUSTERITY

THE WAR AGAINST INFLATION REQUIRES DISCIPLINE AND RESTRAINT. THIS MEANS THAT WE MUST BE WILLING TO ACCEPT A PERIOD OF AUSTERITY FOR AMERICANS -- AND WORK TO SEE THAT SUCH AUSTERITY IS FAIRLY SHARED --

SO THAT WE WILL BE ABLE TO ACHIEVE BALANCED GROWTH WITH PRICE STABILITY IN THE YEARS TO COME.

IT IS RIGHT THAT GOVERNMENT SHOULD LEAD THE WAR AGAINST INFLATION. BUT THE CAMPAIGN WILL MOST SURELY SUCCEED -- AND AT A FASTER PACE -- IF EVERY AMERICAN PLAYS HIS FULL PART. IT IS A TIME OF TESTING FOR OUR NATION AND FOR EACH OF US. YOUR HELP AND YOUR SUPPORT WILL MAKE A GREAT CONTRIBUTION TOWARD AN EARLY VICTORY.

CONCLUSION

IN CONSIDERING THIS MORNING THE MANY DIFFICULTIES WE FACE, I CANNOT HELP BUT REFLECT ALSO ON OUR MANY BLESSINGS.

SOME MONTHS AGO, THIS WAS BROUGHT VIVIDLY HOME TO ME. WATCHING THE STRUGGLE OF THE BOAT PEOPLE TO FIND A LIGHT IN A DARKENED CORNER FO THE WORLD, WATCHING THE EXTREME RISKS THEY ENDURED IN SEEKING TO REACH AN AMERICAN REFUGE -- SPOKE MORE ELOQUENTLY THAN I COULD OF THE LIVING REALITY OF THE AMERICAN DREAM.

MY PURPOSE IS TO DO THE VERY BEST I CAN TO ASSURE THE LASTING VITALITY OF OUR ECONOMIC SYSTEM, TO FIGHT AND TO WIN THE WAR AGAINST INFLATION, TO REINFORCE THE PRE-EMINENCE OF AMERICA AT HOME AND ABROAD.

AND TO HELP KEEP ALIVE THAT GREAT AMERICAN DREAM.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

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ADDRESS BY
SECRETARY OF THE U.S. TREASURY
G. WILLIAM MILLER
BEFORE THE AMERICAN BANKERS ASSOCIATION
NEW ORLEANS, LOUISIANA

IT IS A SPECIAL PLEASURE FOR ME TO BE WITH YOU THIS MORNING. YOUR INVITATION WAS EXTENDED TO ME IN MY ROLE AS CHAIRMAN OF THE FEDERAL RESERVE BOARD. I APPRECIATE THE OPPORTUNITY TO PARTICIPATE IN MY NEW CAPACITY. AND IT IS A PARTICULAR PRIVILEGE FOR ME TO BE HERE IN THE DISTINGUISHED COMPANY OF THE GREAT SENATOR RUSSELL LONG OF LOUISIANA AND THE GREAT STATESMAN HENRY KISSINGER.

CHALLENGE OF CHANGE

YOUR MEETING HERE IN NEW ORLEANS IS BEING HELD AS THE DECADE OF THE 1970'S DRAWS RAPIDLY TO A CLOSE. IT HAS BEEN A DECADE MARKED BY TURBULENT FORCES. POLITICAL AND ECONOMIC EVENTS OF FAR-REACHING CONSEQUENCES HAVE CASCADED ONE UPON ANOTHER, LEAVING AN OFTEN BREATHLESS WORLD TO NAVIGATE UNCHARTED WATERS.

IN AN ERA WHEN CHANGE HAS BEEN THE NORM, THE PACE OF CHANGE HAS QUICKENED. PEOPLE AND INSTITUTIONS, PRIVATE AND PUBLIC, HAVE BEEN CHALLENGED TO ADAPT RAPIDLY OR RISK BEING LEFT BEHIND IN THE BACK-EDDIES OF PROGRESS.

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YOUR OWN BANKING INDUSTRY HAS NOT BEEN IMMUNE FROM THESE FORCES. ON THE CONTRARY, YOU HAVE FACED A HIGH ORDER OF MAGNITUDE OF CHANGE, BOTH DOMESTIC AND INTERNATIONAL. THE NEW REGIME OF FLOATING EXCHANGE RATES, THE MAJOR SHIFTS IN INTERNATIONAL BALANCES FOLLOWING OIL PRICE SHOCKS, THE EMERGENCE OF NEW CREDIT AND FINANCIAL INSTRUMENTS BOTH WITHIN AND WITHOUT THE BANKING SYSTEM, THE AVAILABILITY OF ADVANCED TECHNOLOGY IN COMMUNICATIONS AND DATA PROCESSING, THE INCREASED VOLATILITY OF MARKETS, THE INTENSIFICATION OF COMPETITION, THE INADEQUACY OF SAVINGS AND CAPITAL FORMATION -- THESE, AND OTHER DEVELOPMENTS, HAVE PRESENTED A GREAT CHALLENGE TO THE AMERICAN BANKING SYSTEM.

IN THE FACE OF SUCH DYNAMICS, THE BANKING INDUSTRY HAS DEMONSTRATED REMARKABLE RESILIENCE, FLEXIBILITY, INNOVATION AND VIGOR. THE BANKER HAS BEEN A PERSON ON THE MOVE, STILL PRUDENT, BUT MODERN AND KEEPING UP WITH THE TIMES.

THE CHALLENGES CONTINUE, AND YOUR AGENDA FOR ACTION IS LONG. AMONG OTHERS ITEMS, THE TIME IS RIPE TO PHASE OUT INTEREST RATE CEILINGS UNDER REGULATION Q AND TO AUTHORIZE NOW ACCOUNTS NATIONWIDE. THE ADMINISTRATION IS EAGER TO WORK WITH YOU TO GAIN THE NECESSARY CONGRESSIONAL APPROVALS.

IN PARTICULAR, I WANT TO TAKE THIS OPPORTUNITY TO COMMEND YOU OF THE AMERICAN BANKERS ASSOCIATION FOR YOUR LEADERSHIP IN PROMOTING MONETARY IMPROVEMENT LEGISLATION IN THIS SESSION OF THE CONGRESS. THE DUAL OBJECTIVES OF REDUCING BURDENS ON MEMBER BANKS AND PROVIDING GREATER COMPETITIVE EQUALITY AMONG FINANCIAL INSTITUTIONS WILL HELP STRENGTHEN OUR BANKING SYSTEM. THE RECENT ACTION OF YOUR BANKING LEADERSHIP CONFERENCE IN REAFFIRMING ENDORSEMENT FOR THE CONCEPT OF RESERVE REQUIREMENTS ON TRANSACTIONS ACCOUNTS OF ALL FINANCIAL INTERMEDIARIES, WITH A LOWER RESERVE RATIO BELOW A CERTAIN DEPOSIT LEVEL, SHOULD PROVIDE MOMENTUM FOR FAVORABLE CONGRESSIONAL ACTION.

IN THESE DIFFICULT TIMES, I AM ESPECIALLY ENCOURAGED BY YOUR DEMONSTRATION OF COMMITMENT TO A STRONG, INDEPENDENT AND EFFECTIVE FEDERAL RESERVE SYSTEM.

IN LIKE VEIN, WE IN THE ADMINISTRATION ARE COMMITTED TO A STRONG AND EFFECTIVE DUAL BANKING SYSTEM. OUR NATIONS'S ECONOMIC PROGRESS DEPENDS UPON MAINTAINING YOUR STRENGTH AND YOUR VITALITY.

THE THREAT OF INFLATION

LET ME TURN NOW TO A BROADER LOOK AT OUR ECONOMY. OVERSHADOWING ALL ELSE IS THE HIGH AND PERSISTENT RATE OF INFLATION.

THE CAUSES OF INFLATION ARE MANY AND WELL KNOWN TO YOU. INFLATION HAS BUILT UP OVER THE PAST FIFTEEN YEARS. IT IS NOW DEEPLY EMBEDDED IN OUR ECONOMIC STRUCTURE. IT IS A CLEAR AND PRESENT DANGER TO OUR NATIONAL WELL-BEING.

INFLATION REDUCES REAL INCOMES AND VALUES; IT THREATENS OUR ABILITY TO PROVIDE EMPLOYMENT OPPORTUNITIES; IT DRIES UP JOB CREATING INVESTMENTS; IT IMPEDES PRODUCTIVITY; IT BREEDS RECESSION; AND IT FALLS MOST HEAVILY ON THOSE LEAST ABLE TO BEAR THE BURDEN.

THE WAR AGAINST INFLATION MUST BE OUR TOP PRIORITY. THERE IS NO QUICK OR SIMPLE SOLUTION. THE WAR MUST BE WAGED THROUGH A COMPREHENSIVE STRATEGY ON ALL FRONTS ON A CONTINUOUS BASIS.

WE DO HAVE AN INTEGRATED STRATEGY. WE ARE MARSHALLING ALL RESOURCES. WE ARE DIRECTING ALL ECONOMIC POLICIES TOWARD A TOTAL WAR AGAINST INFLATION.

AND MOST OF ALL, WE ARE DIRECTING OUR EFFORTS AT THE FUNDAMENTAL CAUSES OF INFLATION RATHER THAN JUST THE SYMPTONS.

I WOULD LIKE TO OUTLINE THE PRINCIPAL POLICIES WHICH TOGETHER MUST FORM THE MAIN FORCES FOR OUR ASSAULT.

FISCAL POLICY

FIRST, IS A DISCIPLINED FISCAL POLICY. THE CUMULATIVE EFFECT OF LARGE FEDERAL DEFICITS YEAR AFTER

YEAR HAS BEEN TO FUEL THE FIRES OF INFLATION. WE ARE DETERMINED TO APPLY FISCAL RESTRAINT AND MOVE AS QUICKLY AS POSSIBLE TOWARD A BALANCED BUDGET.

SOME PROGRESS CAN ALREADY BE REPORTED. IN 1976, THE FEDERAL DEFICIT WAS THREE PERCENT OF GROSS NATIONAL PRODUCT. THIS YEAR, IT WILL BE DOWN TO ONLY ONE PERCENT. UNLESS THE CURRENT RECESSION DEEPENS, WE SHOULD MAKE FURTHER PROGRESS NEXT YEAR.

EVEN MORE IMPORTANT IS TO GAIN BETTER CONTROL OVER FEDERAL SPENDING AND TO REDUCE THE RELATIVE ROLE OF FEDERAL EXPENDITURES IN OUR NATIONAL ECONLMY. IN 1976, FEDERAL SPENDING WAS 22.6 PERCENT OF GNP. THIS YEAR IT WILL BE DOWN TO ABOUT 21.5 PERCENT. AND WE INTEND TO REDUCE IT FURTHER.

THE NET RESULT, OVER TIME, OF REDUCED DEFICITS AND REDUCED EXPENDITURES AS A PERCENT OF GNP WILL BE TO RELEASE SUBSTANTIAL RESOURCES FOR THE PRIVATE SECTOR. THE SPENDING AND INVESTING DECISIONS OF INDIVIDUALS AND BUSINESSES WITH RESPECT TO THESE RESOURCES WILL BE FAR MORE BENEFICIAL TO OUR ECONOMY THAN CHANNELING THE SAME AMOUNTS THROUGH GOVERNMENT.

MONETARY POLICY

A SECOND WEAPON IN THE WAR AGAINST INFLATION IS A DISCIPLINED MONETARY POLICY. THE FEDERAL RESERVE HAS BEEN PURSUING A COURSE TO KEEP FIRM CONTROL OVER THE

GROWTH OF THE MONEY SUPPLY. THE OBJECT HAS BEEN TO REDUCE PROGRESSIVELY THE RATE OF GROWTH OF MONEY AND CREDIT IN ORDER TO STARVE OUT INFLATION.

AGAIN, THERE HAS BEEN SOME PROGRESS, AND GROWTH RATES HAVE SLOWED. FOR INSTANCE, THE INCREASE IN M-1 OVER THE PAST TWELVE MONTHS HAS BEEN HELD TO 4.9 PERCENT -- LESS THAN HALF THE INCREASE IN CONSUMER PRICES. BUT IN RECENT MONTHS, FOLLOWING THE LARGE INCREASE IN OIL PRICES IN THE SECOND QUARTER, THE GROWTH HAS BEEN MUCH MORE RAPID.

THE FEDERAL RESERVE HAS RESPONDED PROMPTLY TO COUNTER THE TREND AND TO DEAL WITH RECENT EVIDENCE OF RENEWED INFLATIONARY PRESSURES. ON SATURDAY EVENING, THE FEDERAL RESERVE ANNOUNCED UNANIMOUS APPROVAL FOR A SERIES OF COMPLEMENTARY ACTIONS. THE DISCOUNT RATE WAS INCREASED A FULL PERCENT, FROM 11 TO 12 PERCENT; A MARGINAL RESERVE REQUIREMENT OF 8 PERCENT WAS ESTABLISHED FOR "MANAGED LIABILITIES"; AND THE METHOD OF CONDUCTING MONETARY POLICY WAS REVISED TO SUPPORT THE OBJECTIVE OF CONTAINING GROWTH IN THE MONETARY AGGREGATES OVER THE REMAINDER OF THIS YEAR WITHIN THE PREVIOUSLY ADOPTED RANGES. IN ADDITION, THE FEDERAL RESERVE BOARD CALLED UPON BANKS TO AVOID MAKING LOANS THAT SUPPORT SPECULATIVE ACTIVITY IN GOLD, COMMODITIES AND FOREIGN EXCHANGE MARKETS.

These actions should serve to dampen inflationary forces and contribute to greater stability in foreign exchange markets.

PAY-PRICE POLICY

Fiscal and monetary restraint represent powerful weapons to attack the fundamental causes of inflation. But they take effect with some lag. Therefore, another important policy is the voluntary program to moderate pay and price increases and thus provide time for the other basic policies to take hold.

Because of widespread cooperation, most major corporations and most labor contracts have been in compliance with the voluntary standards during the first year. As a result, overall price and pay increases have been smaller than otherwise would have been experienced.

For the second year of the program, it was felt desirable to provide for greater participation by management and labor in the process of establishing and applying pay standards. This should help avoid inequities which otherwise may develop over time. A tripartite Pay Committee, to be chaired by John Dunlop, is therefore being established, with a first task of recommending pay standards for the period ahead.

IN THIS CONNECTION, THE ADMINISTRATION WORKED OUT A NATIONAL ACCORD WITH AMERICAN LABOR LEADERSHIP IN SUPPORT OF THE WAR AGAINST INFLATION AND PROVIDING FOR LABOR INVOLVEMENT IN THE PAY-PRICE PROGRAM.

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THE ACTIONS TAKEN BY THE FEDERAL RESERVE OVER THE WEEKEND REPRESENT A POSITIVE RESPONSE. BY MOVING POWERFULLY TO ASSURE BETTER CONTROL OVER THE EXPANSION OF MONEY AND CREDIT, AND TO HELP CURB EXCESSIVES IN COMMODITY AND OTHER MARKETS, THE FEDERAL RESERVE WILL DAMPEN INFLATIONARY FORCES AND INFLATIONARY EXPECTATIONS AND WILL CONTRIBUTE TO GREATER STABILITY IN FOREIGN EXCHANGE MARKETS.

WE WILL CONTINUE TO MONITOR THESE MARKETS CAREFULLY, AND WILL BE PREPARED TO TAKE OTHER COMPLEMENTARY ACTIONS WHEN AND IF APPROPRIATE. WE INTEND TO MAINTAIN A SOUND DOLLAR.

ENERGY POLICY

NEXT IS ENERGY POLICY. THE TEN-FOLD INCREASE IN WORLD OIL PRICES HAS BEEN A PRINCIPAL CONTRIBUTOR TO THE ACCELERATION OF INFLATION DURING THIS DECADE. OIL PRICE INCREASES HAVE COME IN TWO MAJOR WAVES: THE FIRST IN 1974 FOLLOWING THE OIL EMBARGO AND THE SECOND EARLIER THIS YEAR FOLLOWING THE UPHEAVAL IN IRAN.

THE RECENT PRICE SHOCK HAS HAD A DESTABILIZING EFFECT ON THE WORLD'S ECONOMY. ON AN ANNUAL BASIS, THE 60 PERCENT JUMP IN OIL PRICES WILL INCREASE THE IMPORT BILL OF THE DEVELOPED COUNTRIES BY ALMOST $75 BILLION AND THE IMPORT BILL OF THE DEVELOPING COUNTRIES

BY $15 BILLION. AS A RESULT, THE PROSPECTS FOR WORLD ECONOMIC PROGRESS ARE LESS PROMISING. THE OUTLOOK IS PARTICULARLY HARSH FOR THE POOREST NON-OIL NATIONS.

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ADDRESS BY
SECRETARY OF THE U.S. TREASURY
G. WILLIAM MILLER
BEFORE THE AMERICAN BANKERS ASSOCIATION
NEW ORLEANS, LOUISIANA

IT IS A SPECIAL PLEASURE FOR ME TO BE WITH YOU THIS MORNING. YOUR INVITATION WAS EXTENDED TO ME IN MY ROLE AS CHAIRMAN OF THE FEDERAL RESERVE BOARD. I APPRECIATE THE OPPORTUNITY TO PARTICIPATE IN MY NEW CAPACITY. AND IT IS A PARTICULAR PRIVILEGE FOR ME TO BE HERE IN THE DISTINGUISHED COMPANY OF THE GREAT SENATOR RUSSELL LONG OF LOUISIANA AND THE GREAT STATESMAN HENRY KISSINGER.

CHALLENGE OF CHANGE

YOUR MEETING HERE IN NEW ORLEANS IS BEING HELD AS THE DECADE OF THE 1970'S DRAWS RAPIDLY TO A CLOSE. IT HAS BEEN A DECADE MARKED BY TURBULENT FORCES. POLITICAL AND ECONOMIC EVENTS OF FAR-REACHING CONSEQUENCES HAVE CASCADED ONE UPON ANOTHER, LEAVING AN OFTEN BREATHLESS WORLD TO NAVIGATE UNCHARTED WATERS.

IN AN ERA WHEN CHANGE HAS BEEN THE NORM, THE PACE OF CHANGE HAS QUICKENED. PEOPLE AND INSTITUTIONS, PRIVATE AND PUBLIC, HAVE BEEN CHALLENGED TO ADAPT RAPIDLY OR RISK BEING LEFT BEHIND IN THE BACK-EDDIES OF PROGRESS.

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YOUR OWN BANKING INDUSTRY HAS NOT BEEN IMMUNE FROM THESE FORCES. ON THE CONTRARY, YOU HAVE FACED A HIGH ORDER OF MAGNITUDE OF CHANGE, BOTH DOMESTIC AND INTERNATIONAL. THE NEW REGIME OF FLOATING EXCHANGE RATES, THE MAJOR SHIFTS IN INTERNATIONAL BALANCES FOLLOWING OIL PRICE SHOCKS, THE EMERGENCE OF NEW CREDIT AND FINANCIAL INSTRUMENTS BOTH WITHIN AND WITHOUT THE BANKING SYSTEM, THE AVAILABILITY OF ADVANCED TECHNOLOGY IN COMMUNICATIONS AND DATA PROCESSING, THE INCREASED VOLATILITY OF MARKETS, THE INTENSIFICATION OF COMPETITION, THE INADEQUACY OF SAVINGS AND CAPITAL FORMATION -- THESE, AND OTHER DEVELOPMENTS, HAVE PRESENTED A GREAT CHALLENGE TO THE AMERICAN BANKING SYSTEM.

IN THE FACE OF SUCH DYNAMICS, THE BANKING INDUSTRY HAS DEMONSTRATED REMARKABLE RESILIENCE, FLEXIBILITY, INNOVATION AND VIGOR. THE BANKER HAS BEEN A PERSON ON THE MOVE, STILL PRUDENT, BUT MODERN AND KEEPING UP WITH THE TIMES.

THE CHALLENGES CONTINUE, AND YOUR AGENDA FOR ACTION IS LONG. AMONG OTHERS ITEMS, THE TIME IS RIPE TO PHASE OUT INTEREST RATE CEILINGS UNDER REGULATION Q AND TO AUTHORIZE NOW ACCOUNTS NATIONWIDE. THE ADMINISTRATION IS EAGER TO WORK WITH YOU TO GAIN THE NECESSARY CONGRESSIONAL APPROVALS.

IN PARTICULAR, I WANT TO TAKE THIS OPPORTUNITY TO COMMEND YOU OF THE AMERICAN BANKERS ASSOCIATION FOR YOUR LEADERSHIP IN PROMOTING MONETARY IMPROVEMENT LEGISLATION IN THIS SESSION OF THE CONGRESS. THE DUAL OBJECTIVES OF REDUCING BURDENS ON MEMBER BANKS AND PROVIDING GREATER COMPETITIVE EQUALITY AMONG FINANCIAL INSTITUTIONS WILL HELP STRENGTHEN OUR BANKING SYSTEM. THE RECENT ACTION OF YOUR BANKING LEADERSHIP CONFERENCE IN REAFFIRMING ENDORSEMENT FOR THE CONCEPT OF RESERVE REQUIREMENTS ON TRANSACTIONS ACCOUNTS OF ALL FINANCIAL INTERMEDIARIES, WITH A LOWER RESERVE RATIO BELOW A CERTAIN DEPOSIT LEVEL, SHOULD PROVIDE MOMENTUM FOR FAVORABLE CONGRESSIONAL ACTION.

IN THESE DIFFICULT TIMES, I AM ESPECIALLY ENCOURAGED BY YOUR DEMONSTRATION OF COMMITMENT TO A STRONG, INDEPENDENT AND EFFECTIVE FEDERAL RESERVE SYSTEM.

IN LIKE VEIN, WE IN THE ADMINISTRATION ARE COMMITTED TO A STRONG AND EFFECTIVE DUAL BANKING SYSTEM. OUR NATIONS'S ECONOMIC PROGRESS DEPENDS UPON MAINTAINING YOUR STRENGTH AND YOUR VITALITY.

<u>THE THREAT OF INFLATION</u>

LET ME TURN NOW TO A BROADER LOOK AT OUR ECONOMY. OVERSHADOWING ALL ELSE IS THE HIGH AND PERSISTENT RATE OF INFLATION.

THE CAUSES OF INFLATION ARE MANY AND WELL KNOWN TO YOU. INFLATION HAS BUILT UP OVER THE PAST FIFTEEN YEARS. IT IS NOW DEEPLY EMBEDDED IN OUR ECONOMIC STRUCTURE. IT IS A CLEAR AND PRESENT DANGER TO OUR NATIONAL WELL-BEING.

INFLATION REDUCES REAL INCOMES AND VALUES; IT THREATENS OUR ABILITY TO PROVIDE EMPLOYMENT OPPORTUNITIES; IT DRIES UP JOB CREATING INVESTMENTS; IT IMPEDES PRODUCTIVITY; IT BREEDS RECESSION; AND IT FALLS MOST HEAVILY ON THOSE LEAST ABLE TO BEAR THE BURDEN.

THE WAR AGAINST INFLATION MUST BE OUR TOP PRIORITY. THERE IS NO QUICK OR SIMPLE SOLUTION. THE WAR MUST BE WAGED THROUGH A COMPREHENSIVE STRATEGY ON ALL FRONTS ON A CONTINUOUS BASIS.

WE DO HAVE AN INTEGRATED STRATEGY. WE ARE MARSHALLING ALL RESOURCES. WE ARE DIRECTING ALL ECONOMIC POLICIES TOWARD A TOTAL WAR AGAINST INFLATION.

AND MOST OF ALL, WE ARE DIRECTING OUR EFFORTS AT THE FUNDAMENTAL CAUSES OF INFLATION RATHER THAN JUST THE SYMPTONS.

I WOULD LIKE TO OUTLINE THE PRINCIPAL POLICIES WHICH TOGETHER MUST FORM THE MAIN FORCES FOR OUR ASSAULT.

<u>FISCAL POLICY</u>

FIRST, IS A DISCIPLINED FISCAL POLICY. THE CUMULATIVE EFFECT OF LARGE FEDERAL DEFICITS YEAR AFTER

YEAR HAS BEEN TO FUEL THE FIRES OF INFLATION. WE ARE DETERMINED TO APPLY FISCAL RESTRAINT AND MOVE AS QUICKLY AS POSSIBLE TOWARD A BALANCED BUDGET.

SOME PROGRESS CAN ALREADY BE REPORTED. IN 1976, THE FEDERAL DEFICIT WAS THREE PERCENT OF GROSS NATIONAL PRODUCT. THIS YEAR, IT WILL BE DOWN TO ONLY ONE PERCENT. UNLESS THE CURRENT RECESSION DEEPENS, WE SHOULD MAKE FURTHER PROGRESS NEXT YEAR.

EVEN MORE IMPORTANT IS TO GAIN BETTER CONTROL OVER FEDERAL SPENDING AND TO REDUCE THE RELATIVE ROLE OF FEDERAL EXPENDITURES IN OUR NATIONAL ECONLMY. IN 1976, FEDERAL SPENDING WAS 22.6 PERCENT OF GNP. THIS YEAR IT WILL BE DOWN TO ABOUT 21.5 PERCENT. AND WE INTEND TO REDUCE IT FURTHER.

THE NET RESULT, OVER TIME, OF REDUCED DEFICITS AND REDUCED EXPENDITURES AS A PERCENT OF GNP WILL BE TO RELEASE SUBSTANTIAL RESOURCES FOR THE PRIVATE SECTOR. THE SPENDING AND INVESTING DECISIONS OF INDIVIDUALS AND BUSINESSES WITH RESPECT TO THESE RESOURCES WILL BE FAR MORE BENEFICIAL TO OUR ECONOMY THAN CHANNELING THE SAME AMOUNTS THROUGH GOVERNMENT.

MONETARY POLICY

A SECOND WEAPON IN THE WAR AGAINST INFLATION IS A DISCIPLINED MONETARY POLICY. THE FEDERAL RESERVE HAS BEEN PURSUING A COURSE TO KEEP FIRM CONTROL OVER THE

GROWTH OF THE MONEY SUPPLY. THE OBJECT HAS BEEN TO REDUCE PROGRESSIVELY THE RATE OF GROWTH OF MONEY AND CREDIT IN ORDER TO STARVE OUT INFLATION.

AGAIN, THERE HAS BEEN SOME PROGRESS, AND GROWTH RATES HAVE SLOWED. FOR INSTANCE, THE INCREASE IN M-1 OVER THE PAST TWELVE MONTHS HAS BEEN HELD TO 4.9 PERCENT -- LESS THAN HALF THE INCREASE IN CONSUMER PRICES. BUT IN RECENT MONTHS, FOLLOWING THE LARGE INCREASE IN OIL PRICES IN THE SECOND QUARTER, THE GROWTH HAS BEEN MUCH MORE RAPID.

THE FEDERAL RESERVE HAS RESPONDED PROMPTLY TO COUNTER THE TREND AND TO DEAL WITH RECENT EVIDENCE OF RENEWED INFLATIONARY PRESSURES. ON SATURDAY EVENING, THE FEDERAL RESERVE ANNOUNCED UNANIMOUS APPROVAL FOR A SERIES OF COMPLEMENTARY ACTIONS. THE DISCOUNT RATE WAS INCREASED A FULL PERCENT, FROM 11 TO 12 PERCENT; A MARGINAL RESERVE REQUIREMENT OF 8 PERCENT WAS ESTABLISHED FOR "MANAGED LIABILITIES"; AND THE METHOD OF CONDUCTING MONETARY POLICY WAS REVISED TO SUPPORT THE OBJECTIVE OF CONTAINING GROWTH IN THE MONETARY AGGREGATES OVER THE REMAINDER OF THIS YEAR WITHIN THE PREVIOUSLY ADOPTED RANGES. IN ADDITION, THE FEDERAL RESERVE BOARD CALLED UPON BANKS TO AVOID MAKING LOANS THAT SUPPORT SPECULATIVE ACTIVITY IN GOLD, COMMODITIES AND FOREIGN EXCHANGE MARKETS.

THESE ACTIONS SHOULD SERVE TO DAMPEN INFLATIONARY FORCES AND CONTRIBUTE TO GREATER STABILITY IN FOREIGN EXCHANGE MARKETS.

PAY-PRICE POLICY

FISCAL AND MONETARY RESTRAINT REPRESENT POWERFUL WEAPONS TO ATTACK THE FUNDAMENTAL CAUSES OF INFLATION. BUT THEY TAKE EFFECT WITH SOME LAG. THEREFORE, ANOTHER IMPORTANT POLICY IS THE VOLUNTARY PROGRAM TO MODERATE PAY AND PRICE INCREASES AND THUS PROVIDE TIME FOR THE OTHER BASIC POLICIES TO TAKE HOLD.

BECAUSE OF WIDESPREAD COOPERATION, MOST MAJOR CORPORATIONS AND MOST LABOR CONTRACTS HAVE BEEN IN COMPLIANCE WITH THE VOLUNTARY STANDARDS DURING THE FIRST YEAR. AS A RESULT, OVERALL PRICE AND PAY INCREASES HAVE BEEN SMALLER THAN OTHERWISE WOULD HAVE BEEN EXPERIENCED.

FOR THE SECOND YEAR OF THE PROGRAM, IT WAS FELT DESIRABLE TO PROVIDE FOR GREATER PARTICIPATION BY MANAGEMENT AND LABOR IN THE PROCESS OF ESTABLISHING AND APPLYING PAY STANDARDS. THIS SHOULD HELP AVOID INEQUITIES WHICH OTHERWISE MAY DEVELOP OVER TIME. A TRIPARTITE PAY COMMITTEE, TO BE CHAIRED BY JOHN DUNLOP, IS THEREFORE BEING ESTABLISHED, WITH A FIRST TASK OF RECOMMENDING PAY STANDARDS FOR THE PERIOD AHEAD.

IN THIS CONNECTION, THE ADMINISTRATION WORKED OUT A NATIONAL ACCORD WITH AMERICAN LABOR LEADERSHIP IN SUPPORT OF THE WAR AGAINST INFLATION AND PROVIDING FOR LABOR INVOLVEMENT IN THE PAY-PRICE PROGRAM.

GOVERNMENT REGULATIONS

IN BATTLING INFLATION, WE MUST NOT OVERLOOK THE COST-RAISING ACTIONS OF GOVERNMENT. AMONG THESE ARE THE COSTS OF UNNECESSARY REGULATION. WE MUST INTENSIFY EFFORTS TO REDUCE THE BURDEN OF GOVERNMENT, AND IN PARTICULAR THE BURDEN ON THE BANKING SYSTEM.

BUT LET ME NOT RAISE FALSE HOPES. WHEN I WAS AT THE FEDERAL RESERVE WE LAUNCHED PROJECT AUGEUS -- TO UNDERTAKE THE HERCULEAN TASK OF CLEANING OUT REGULATORY STABLES THAT SEEMED SOMEWHAT LIKE THE STABLES OF AUGEUS THAT HAD GONE UNCLEANED FOR THIRTY YEARS. THE EFFORT CONTINUES; AND I HOPE TO LAUNCH A SIMILAR ATTACK AT TREASURY.

BUT IT IS NOT EASY. MUCH REGULATION IS FOUNDED IN STATUTE, AND WHILE WE CAN IMPROVE AND SHORTEN AND CLARIFY, WE OFTEN NEED LEGISLATION TO MAKE REAL REDUCTIONS IN BURDEN.

SO IT WILL TAKE TIME, AND WILL NEED YOUR HELP AND SUPPORT. I WOULD PARTICULARLY WELCOME YOUR SUGGESTIONS AND RECOMMENDATIONS IN THIS AREA.

INTERNATIONAL ECONOMIC POLICY

NOW LET ME TURN TO THE INTERNATIONAL SECTOR. A SOUND AND STABLE DOLLAR IS ESSENTIAL IF WE ARE TO ACHIEVE PRICE STABILITY IN OUR DOMESTIC ECONOMY.

A DECLINING DOLLAR INCREASES THE PRICES WE PAY FOR NECESSARY IMPORTS AND OTHERWISE CONTRIBUTES TO HIGHER PRICES HERE AT HOME.

THE INTERNATIONAL EXCHANGE VALUE OF THE DOLLAR IS ADVERSELY AFFECTED BY TWO BASIC FACTORS: INFLATION DIFFERENTIALS WITH OTHER COUNTRIES AND DEFICITS IN OUR BALANCE OF PAYMENTS.

THE CURRENT ACCOUNT POSITION OF THE UNITED STATES HAS BEEN SEVERELY IMPACTED BY THE TEN-FOLD INCREASE IN WORLD OIL PRICES SINCE 1974. CONSIDER THE CONSEQUENCES: IN 1973, THIS COUNTRY IMPORTED $8.5 BILLION OF OIL; THIS YEAR IT WILL BE ALMOST $60 BILLION.

BUT DESPITE THIS, WE HAVE MADE EXCELLENT PROGRESS TOWARD RESTORING BALANCE. IN 1978, OUR CURRENT ACCOUNT SHOWED A $14 BILLION DEFICIT. THIS YEAR, THE DEFICIT WILL BE REDUCED TO ONLY A FEW BILLION, EVEN AFTER ABSORBING AN INCREASE OF $16 BILLION IN THE COST OF OIL IMPORTS. AND NEXT YEAR, 1980, WE EXPECT A SUBSTANTIAL CURRENT ACCOUNT SURPLUS.

IN ADDITION, WE HAVE DEALT -- AND WE WILL IN THE FUTURE DEAL -- FORCEFULLY WITH UNWARRANTED EXCHANGE MARKET PRESSURES. IN THIS REGARD, STRONG MEASURES

WERE INTRODUCED LAST NOVEMBER 1, JUST A YEAR AGO. SINCE THAT TIME, WE HAVE ACHIEVED SIGNIFICANT PROGRESS IN STRENGTHENING THE DOLLAR EXCHANGE RATE. THE DOLLAR HAS MOVED UP AGAINST SOME CURRENCIES, DOWN AGAINST OTHERS, AND REMAINED STABLE AGAINST MOST. MEASURED AGAINST THE AVERAGE OF THE MAJOR INDUSTRIAL COUNTRIES, THE DOLLAR IS NOW ABOUT 5 PERCENT HIGHER THAN IT WAS A YEAR AGO. FROM THE VIEWPOINT OF THE OPEC NATIONS, IN RELATION TO THE OTHER CURRENCIES THEY USE TO PURCHASE THEIR IMPORTS, THE DOLLAR HAS INCREASED ABOUT 8 PERCENT ON AVERAGE FROM A YEAR AGO.

IT MIGHT ALSO BE NOTED THAT THE DOLLAR IS ABOUT 25 PERCENT HIGHER AGAINST THE JAPANESE YEN SINCE THIS TIME LAST YEAR.

NOTWITHSTANDING FAVORABLE CHANGES IN THE DOLLAR VALUE IN TERMS OF AVERAGES AND AGAINST SOME CURRENCIES, WE ARE DETERMINED TO MAINTAIN EXCHANGE MARKET STABILITY FOR THE DOLLAR IN TERMS OF INDIVIDUAL MAJOR CURRENCIES. IN PARTICULAR, SINCE MID-JUNE THE DOLLAR HAS BEEN DOWN SOMEWHAT IN RELATION TO THE DEUTSCHE MARK. WE HAVE THEREFORE BEEN GIVEN SPECIAL ATTENTION TO THIS SITUATION. CONSULTATIONS HAVE BEEN HELD WITH GERMAN OFFICIALS AT THE HIGHEST LEVELS TO ASSURE CLOSE COORDINATION OF COUNTER MEASURES.

THE ACTIONS TAKEN BY THE FEDERAL RESERVE OVER THE WEEKEND REPRESENT A POSITIVE RESPONSE. BY MOVING POWERFULLY TO ASSURE BETTER CONTROL OVER THE EXPANSION OF MONEY AND CREDIT, AND TO HELP CURB EXCESSIVES IN COMMODITY AND OTHER MARKETS, THE FEDERAL RESERVE WILL DAMPEN INFLATIONARY FORCES AND INFLATIONARY EXPECTATIONS AND WILL CONTRIBUTE TO GREATER STABILITY IN FOREIGN EXCHANGE MARKETS.

WE WILL CONTINUE TO MONITOR THESE MARKETS CAREFULLY, AND WILL BE PREPARED TO TAKE OTHER COMPLEMENTARY ACTIONS WHEN AND IF APPROPRIATE. WE INTEND TO MAINTAIN A SOUND DOLLAR.

ENERGY POLICY

NEXT IS ENERGY POLICY. THE TEN-FOLD INCREASE IN WORLD OIL PRICES HAS BEEN A PRINCIPAL CONTRIBUTOR TO THE ACCELERATION OF INFLATION DURING THIS DECADE. OIL PRICE INCREASES HAVE COME IN TWO MAJOR WAVES: THE FIRST IN 1974 FOLLOWING THE OIL EMBARGO AND THE SECOND EARLIER THIS YEAR FOLLOWING THE UPHEAVAL IN IRAN.

THE RECENT PRICE SHOCK HAS HAD A DESTABILIZING EFFECT ON THE WORLD'S ECONOMY. ON AN ANNUAL BASIS, THE 60 PERCENT JUMP IN OIL PRICES WILL INCREASE THE IMPORT BILL OF THE DEVELOPED COUNTRIES BY ALMOST $75 BILLION AND THE IMPORT BILL OF THE DEVELOPING COUNTRIES

BY $15 BILLION. AS A RESULT, THE PROSPECTS FOR WORLD ECONOMIC PROGRESS ARE LESS PROMISING. THE OUTLOOK IS PARTICULARLY HARSH FOR THE POOREST NON-OIL NATIONS.

TO WIN THE WAR AGAINST INFLATION, IT IS ABSOLUTELY ESSENTIAL THAT WE REDUCE OUR DEPENDENCE UPON IMPORTED OIL AND THAT WE REDUCE OUR DEPENDENCE UPON OIL ITSELF AS A SOURCE OF ENERGY. THE FUTURE AVAILABILITY AND PRICE OF OIL IS TOO UNCERTAIN. WE DARE NOT RISK OUR NATION'S FUTURE ON SUCH A FRAGILE LINE.

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