Notes for Columbia University Graduate School of Business Annual Dinner, Waldorf-Astoria, May 5, 1986

I am delighted to be here tonight for the annual dinner of the graduate school of business. It is a particular pleasure to receive this award which I consider one of prestige and honor, thanks in large part to the efforts of Bob Yavitz and Sandy Burton who have put so much of their energies into making the Columbia School of Business the great institution it has become. Please accept my heartfelt thanks.

I must warn you all at the start that I don't plan to tell any funny stories tonight. I became concerned about a week ago when the New York Times ran a short article contending that I was acquiring a reputation as something of a stand-up comic. That's really strange because I didn't think any of the stories I tell are particularly humorous. At anyrate, that's not the type of reputation that any central banker would relish. After all, central bankers are supposed to be like Puritans -- they have a haunting fear that someone, someplace, may be happy.

My remarks tonight will be brief. I would like to leave you with a few thoughts about the economy and why we should not be complacent about it. Many people are feeling pretty good about the economy right now, despite the obvious imbalances and obstacles. But lest you all think I'm too upbeat about conditions let me quickly remind you that the dollar has declined about 35 percent over the past year, industrial production is flat, the farm and energy sectors have problems and the United States is carrying too much of the load in the world economy. On balance, however, there is well-founded confidence in our longer-run prospects and confidence that we can sustain and consolidate our gains. But the outlook is one of both good and bad news.

A. The Good Signs

1. Fourth year of expansion; more people employed; accomplished without any pick-up in inflation; no sign of downturn.

2. Favorable impact of oil price developments.

3. Ebullience in financial markets.

4. Developments in industry -- inventories; wage restraint; improvement in competitive positions.

5. Interest rate developments (and cooperative actions).

All of these forces, in combination, help provide the solid base for sustained growth and greater price stability.

B. But I also Get Paid To Worry. Let me now play the Puritan lest our partying and cheering get out of hand:

1. There are still imbalances, pressure points and strains.

2. The downside of lower oil prices on oil companies, foreign energy producers, financial institutions.

3. The farm economy.

4. Over-building and see-through offices.

5. Increase in indebtedness.

C. All of this points to a mixed picture and to several fundamental unresolved problems:

D. Other problems

1. LDC debt -- marshalling the will and effort to make fundamental policy changes at home and to regain creditworthiness.

2. Political strains caused by trade deficits, borrowing, inadequate growth. Economic imbalances must be dealt with at source to avoid the political pots boiling over.

3. Siren of protectionism.

4. Solutions:

    a. Recognition of need for discipline plus margin of external financing.

    b. Baker plan.

    c. World Bank and regional development bank lending.

    d. Years of good growth.

Can we, as nations, collectively, find the common ground to solve these problems? I think the answer is yes. It will take a very strong cooperative effort among borrowers, banks, international institutions. But we have some experience now, and all of that can take place.

E. Summary

It's a time of opportunity and optimism, yet a time to be vigilant about the dangers and the future course. As I said earlier, I think we can all agree that we're headed in the right direction. But like bloodhounds we need to keep scent and sight of our quarry and on the track of the economic goals we have set.