The Economic Club of New York

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Thomas A. Murphy
Chairman and Chief Executive Officer
General Motors Corporation

The Honorable Paul A. Volcker
President, Federal Reserve Bank
of New York

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Questioners: James J. O'Leary, Vice Chairman
United States Trust Company of New York

Henry Kaufman, Partner
Salomon Brothers

Introduction

Chairman J. Paul Lyet

Good evening. My name is Paul Lyet and I'm the new chairman of the Economic Club of New York. (Applause) Incidentally, I'm glad that I got the title of the Club out correctly. I've been afraid all week that I'd make a Freudian mistake and call it the Club of Economical New York. One of the perquisites of being chairman is that you get to introduce yourself and that way your name gets pronounced correctly which is rare for me. If it were Chevrolet, I'd have no problem. That's one French name that every American, thanks to General Motors, pronounces correctly.

In chairing meetings of this Club, I intend to do three things resolutely. One, complete and adjourn the meetings no later than 10 p.m., on rainy nights included. Introductions will be brief. A short introduction compliments the speaker. It means that we want more time to listen to him. Questions will be questions, and not speeches. That allows more time for the answers we're all interested in. Following our two featured speakers tonight will be the traditional question and answer period. Mr. Murphy will be questioned by James J. O'Leary, Vice Chairman of the United States Trust Company and a member of our Economic Club. Mr. Volcker will be questioned by Henry Kaufman, a partner and distinguished economist from Salomon Brothers and also a member of our Club.

Before introducing our first speaker, I want to take a moment to thank and compliment Charlie

Tillinghast, my predecessor as chairman, for his excellent work over the past year. If it hadn't been for Charlie, we would not have been able to have arranged, as we did on fairly short notice, the visit that we had on October 29 of the Egyptian President. So, Charlie, will you please stand and accept the applause and appreciation of all of us for your fine contributions. (Applause)

At our last dinner on October 29, our speaker was the head of a state. Our first speaker tonight is the head of an almost state. In fact, Egypt in many ways is smaller than General Motors. Last year, for example, the gross domestic product of Egypt was about $9 billion, and GM had revenues of $31.5 billion. As you know by now, Thomas A. Murphy is Chairman and Chief Executive Officer of General Motors Corporation. And that position alone makes him a most unusual and obviously gifted man. His long career with General Motors, following an education in accounting, has been a statistician, a line manager, a comptroller, a treasurer, and he was elected chairman of the corporation just last December.

Now that's not surprising because we've learned over the years that General Motors has an uncanny ability to get their chief executive, the chief executive that they need, at the right time, the very right time. And that is what they did in this case. And I say that despite what the author of Parkinson's Law said about selecting candidates for top positions. "Reject everyone over the age of 50 or under the age of 20 plus everyone named Murphy." (Laughter) In advancing the cause of his firm for 37 years, Tom Murphy has been not only a financial executive but an operating man, an administrator, and now a distinguished salesman – a distinguished salesman for the free market system, the free enterprise system. And he really knows his business and he knows the business of America. It's a distinct pleasure and a privilege to present Thomas A. Murphy, Chairman and Chief Executive Officer of General Motors whose topic appropriately will be, "Labor and Productivity." Tom. (Applause)

Thomas A. Murphy
Chairman and Chief Executive Officer
General Motors Corporation

Thank you Paul. Ladies and gentlemen, I always say that quote from Parkinson which is accurate is just Parkinson showing his jealousy for Murphy because Murphy's Law, and you've heard the impolite versions of it, says what Parkinson is trying to say in his law so much more simply. Murphy's Law just says everything takes longer than you think. (Laughter) I hope my speech won't be like that.

I greatly value this opportunity to speak before this great body, the Economic Club of New York, because few platforms in our country command as much attention and deserve so much respect as yours. And for my remarks tonight, therefore, I have chosen a subject whose implications upon our American future, I believe; make it worthy of your attention and discussion.

I think we'll all agree on the economic necessity that America be fully competitive in the marketplaces of the world. And I hope you share my concern about the threat that is being posed to this ability to compete by the unremitting escalation of the cost of production. And now to focus still further, let me invite your attention to the most pervasive area of cost – the cost of labor – which is included in everything that we buy and yet is so largely unresponsive to market forces.

The subject of labor cost and its impact on our country's position in world commerce has a special urgency because in the coming year, major segments of American industry, many of them represented here in this room, will renegotiate the agreements covering the wages and the benefits of millions of American workers. The consequences of these agreements will not be confined to single companies or particular industries or even to our own borders. They will have a profound effect on every seller and consumer, every worker and job seeker, every stockholder and taxpayer, everyone, that is, who has a stake in our American economy.

More and more the world is becoming a single marketplace. Nations are becoming more, not less, interdependent. And the idea of a single world society or community seems to be taking hold. More and more we see the problems, and our problems as global – the world environmental problem, the world population problem, or the world food problem. And as businessmen, we speak of world trade, world investments, world markets.

People are, by no means, of a single mind about this emergent world society. Some see it as good and getting better, and others think it's bad and getting worse. Some walk on the changes that it implies and some fear those changes. But like it or not, the world is coming to see itself as one, as a single entity. We're coming to see the awesome problems of our world, but we have not yet, not yet, come to recognize fully and act upon the enormous opportunities of that world. Not the least of these are the manifold benefits to all the world's peoples which can flow from increased commercial relations among all nations.

The American automobile industry, and General Motors in particular I can assure you, is eager to compete everywhere in the world. This international competition in automobile sales is keenest here in the United States, the world's largest automobile market, and it affects many of our country's basic industries. For example, the current level of foreign car sales here in the United States, about 1,600,000 units annually, is probably the equivalent of importing about a million and a half tons of iron and finished steel a year as well as additional tons of rubber and glass and other materials and products.

We want to bring this business back home. We are determined to do it, and it won't be easy. If we in America are to compete successfully, we must be competitive, not only in the quality, the performance, and the prices of our cars and trucks, but in the costs of their production as well. And sometimes we are fighting shadows in that process. There seems to be a curious mystique about a foreign car, whether here at home or overseas. The percentage of import sales here in the United States which we regard as too high at 20%, and that's the peak so far in this calendar year, is actually higher in almost every other automobile manufacturing country throughout the world with the notable exception of Japan where they effectively have kept their market to themselves.

Today, over 20% of the cars sold in France are imported into that country. Twenty-five percent of the cars sold in West Germany are imported into West Germany. In Italy and in the United Kingdom, about 30% of car sales in those countries are imported into the country. Remember the old story about the American who drinks French wine at home, so he always orders imported wine even when he's touring in Paris.

But this mystique aside, there are also hard economics to consider. Hourly wage costs based on current exchange rates in the German automotive industry are about 80% of ours here in the United States. And in Japan today, they're only about 30% of our wage rates here in the United States. Here's where we Americans have a job to do. We want our employees to continue to be paid more than their foreign counterparts and to enjoy the resulting higher standard of living. But to accomplish this and still maintain our competitive position, we must be correspondingly more productive.

The most important economic question facing our country today is not whether we are going to recover from the hangover of recession, but whether in the process we are going to set forth on another binge of double digit inflation. We know that basically the answer to inflation lies in the government's monetary and fiscal policies. But all of us can help to fight inflation – we, you and I, and all who have a voice in the leadership of American business, must in our own businesses be prepared to make the tough, the necessary, and the disciplined decisions with respect to our costs. Higher costs not only steal from our ability to compete in the short run, but in the long run as they push up prices and reduce the profits of business; they frustrate our national growth and the creation of new jobs.

To illustrate this critical cost picture, let me draw upon the recent experience of General Motors. In August of this year, we increased the prices we received from our dealers for a base 1976 Model GM car by an average of $216. However, our costs, those which were known and those to which we were committed at that time, were up by much more than this $216. The cost of this basic GM car increased by an average of $375 in the past year, about 70% more than we were able to raise our prices. And unfortunately, this continues the trend of the past several years, when under the discipline of the competitive market, we have been able to recover in places only a portion of the increases in our costs. And in spite of improvements in the efficiency of our operations, the consequences of these unrecovered cost increases on General Motors profits have been plain to see.

Last year, in 1974, our dollar sales, as Paul indicated, were $31.5 billion and that was about 50% higher than they were in the year 1965. But we were able to earn only about half as much last year as we earned in the calendar year 1965. We sold over $10 billion more in merchandise but we earned a billion dollars less – 50% up in sales, 50% down in profits. This critical erosion of earnings by cost inflation can be seen in almost any recent year to year comparison which you might care to draw and not only in the automobile industry.

So now we approach 1976 and a moment of testing which can alter, for better or for worse, the ability of American industry to compete in the world markets. In the important union management negotiations of 1976, agreement will be reached governing wages, benefits, and working conditions for some four million workers, including those in the trucking, the rubber, the electrical, the construction, and the automobile industries. The historic test will be whether these agreements make even further commitments to cost without commensurate provision for productivity improvement. If they do, history may read these agreements as fateful mortgages upon our national economic future because more cost without more productivity will only weaken America's position in the world.

We will risk a situation where American products will be priced out of the markets of the world including our own domestic market. On the other hand, if we act with determination to control costs, we can remain competitive and we can resume sound national economic growth. Growth is a word which we must not allow to be discredited. For only through growth, based on sound economics, can our country accomplish the worthwhile goals which we have set for ourselves. We want to create decent jobs for our growing labor force, cleanse our skies and waters of pollution, rebuild our cities, teach all of our children and teach them better, and provide decent health protection and housing for all of our people. Yet these ambitions, national aspirations, will be no more than idle dreams unless we slow the drain of rising costs which saps the sources of investment which their achievement requires. In short, for our country and its people, no profits mean no growth, and no profits mean no new jobs, and no profits mean no progress.

There's a widening realization throughout America that we must, in the next decade, invest perhaps $4 trillion to continue this growth, to create the new jobs, and thereby achieve our national goals and maintain the quality of our American life. To generate so massive an amount of capital, three times as much as we invested in the past decade, we must depend heavily upon business profits. The question is whether America's industry and America's labor working together can produce the profits America needs, or whether costs will be allowed to outstrip the gains in productivity with predictable upward pressure on prices and downward pressure on profits.

As the negotiations of 1976 approach, those who sit at the bargaining tables and the American people who will be affected by the outcome must recognize that a rising level of national productivity is the basis, the only basis for a rising standard of national well-being. This is a fundamental fact of economic life that all must recognize and act upon.

When compensation per man hour rises significantly more than output per man hour, then unit costs are inflated and great pressure is put on prices and profitability. Recent economic history demonstrates this. In the six years from 1959 to 1965, output per man hour in manufacturing in this country increased almost exactly in line with compensation per man hour. Both went up about 25% over that six-year period. And because productivity and compensation were in balance, unit labor costs and industrial prices were both virtually unchanged through that period.

However, in contrast, for the next six-year period, from 1965 through 1971, compensation per man hour in this country increased by 43%, while output per man hour went up by only 17% – 43% up in compensation, 17% up in output. And as a result, unit labor costs increased by 22% over this period and industrial prices rose 18%.

Again, let me draw on General Motors to illustrate the recent growth and the present high level of labor costs. Today, for the first time in history, the cost to General Motors of an hour's work is more than $10, $10 an hour, which means the total annual labor cost for the average, full-time GM employee, hourly employee, is about $20,000. About $15,500 of this goes to the employee directly in the form of wages, cost of living allowances, and vacation and holiday payments, all the things that are included in his pay envelope. The other $4,500, however, is just as tangible – a further annual cost to General Motors for such things as insurance, pensions, supplemental unemployment benefits, Federal Social Security, state unemployment compensation, all paid for by General Motors for the benefit of the employee.

American automobile workers, virtually alone among their peers in industry, have managed to stay even with inflation, even the hyperinflation of the past few years. In fact, while the real wages of most American wage earners have declined in recent years, the real wages of the auto workers have gone up somewhat. The GM employees' money wages alone during the period of the current agreement signed just about two years ago has so far increased during the period of this agreement by $1.49 an hour. And they'll increase further during the balance of the term of the agreement through the cost of living provisions in our contracts.

Now think of it, an increase in wages of $1.49 an hour in a little over two years, when for many people in our country their total wage today is the minimum of $2.10 an hour. But General Motors and the other manufacturers have paid the price for this extraordinary protection against inflation, which most auto workers have enjoyed. When we signed our agreements in 1973, General Motors emphasized that it was a costly settlement. And the experience of two years shows us that the cost was heavy indeed, and not only in terms of reduced profitability. Many automobile workers paid a heavy price as well. To the extent that higher labor costs were reflected in higher car prices and to the extent that these higher prices reduced car sales, the employees as a whole paid a price in the consequent layoffs and shortened work weeks. Those who continued to work full-time stayed ahead of inflation, that's true. But not the other hundreds of thousands who were able to work only part-time or not at all.

In the coming negotiations, the figure that we, as managers, must watch is not just the wages alone, but total hourly compensation, the total cost. Total compensation including the so-called fringe benefits. That's what impacts upon cost and ultimately on our prices. In fact, the cost of the so-called fringe benefits, pensions, group life insurance, medical insurance, and unemployment benefits has had a sharper rate of increase than wages over the past two years. In General Motors, fringe benefits such as these are now equivalent to 35% of our straight time hourly wage rate. And when the cost of wage-related benefits such as vacations, holidays, paid absence allowances are added in, the total benefit package comes to over 50% of straight time wages – 50% of straight time wages in fringes.

To call these benefits fringes has long been a misnomer and now it becomes a tragic delusion. To consider them as fringes deceives not only the company which pays them and the employees who receive them, but the American consumer who ultimately must carry their cost. And that cost is paid not only in higher prices, but importantly, in terms of the loss of American ability to compete effectively in our world market.

Fringes indeed, last year General Motors paid on behalf of its employees, in the United States and Canada alone, fringe benefits totalling $2.5 billion, nearly $1 billion of this were employee insurance premiums alone. Every year we spend in General Motors more on fringe benefits than the entire corporation earned in our most profitable year in our history. We spend as much on fringe benefits as we invest in facilities and tools throughout the world, and almost as much as we spend on all the raw steel that goes into our product.

GM's largest supplier today provides not materials for our cars, but fringe benefits for our employees. For the average GM hourly employee in the United States, the so-called fringes come to $4,500 a year as I said, and this is enough to buy a new Impala sedan every year without a trade-in. This figure by itself without the accompanying wages nearly equals the annual per capita income in the United States. To gain the same degree of protection and security on an individual basis, if it were available, the average employee would have to earn not $4,500, but about $7,000 more in compensation, just to take care of those fringes. Fringes indeed.

American management, no less than American labor, must waken to and act upon a basic truth. Only as we improve the output of an hour's labor can we prudently increase the compensation which that labor has earned. You can't get something for nothing. Everything carries a cost. Just as management gains neither productivity nor profits from an exploited workforce, neither does labor benefit from a business losing sales because of its inability to compete against less costly products made overseas.

For years, the model of organized labor was said to be the single word, more. It hasn't changed. But now we also hear talk of less. Not less wages, not less benefits, but less work – shorter work days, shorter work weeks. This won't wash. The public will see, the public must see, that less work, not balanced by increased productivity, really means more cost. And more cost is what America can't afford. The human concern about unemployment in today's difficult times is deep and understandable. But the solution to joblessness lies not in shortsighted "Make Work" or

"Share the Work" programs. These do nothing to increase our productivity or to curtail our costs – quite the contrary. And in the long run, they will mean fewer jobs, not more.

A generation ago, 10-hour days and 5 ½ or 6-day weeks were commonplace. Today, a typical GM employee working a normal shift in our automobile plants is paid for eight hours a day for five days or 40 hours a week. And over the course of a year, this employee also collects pay for holidays, for vacation, and for paid absence allowances totalling more than 30 days. And there are periods during the work day when he is also paid for time not spent working. In fact, over the course of a working year, he might receive pay for about 25% more time than he actually was at his work place. And when the increasingly younger average retirement age is considered, it becomes apparent that a GM employee's work time, whether measured in hours, days, weeks, or years, has become progressively shorter. This is good and welcome, but only so long as the cost of the increased leisure is offset by increased productivity. Productivity has more subtle enemies – absenteeism, slowdowns, work stoppages, featherbedding, and other restrictive work practices are examples. And these two, perhaps as much as excessive contract entitlements, reduce industry's capacity to produce and frustrate our national future.

The need today as we seek to compete in the world markets is to use all of our facilities and all our other resources to the fullest to make all of our plants and our entire economy more productive. If we move ahead, and we can, our economy will be strengthened and inflation will subside. There will be more jobs and better pay and our products will be attractively priced and more competitive everywhere. But if we fail to achieve greater productivity, job opportunities will be fewer. Real wages will be lower and our products will lose position to those of other nations. We must provide new jobs, more productive jobs, not shared jobs, for the nearly two million more Americans being added to our labor force each year. These young Americans, certainly no less than their fathers and their mothers, can help move our great country forward. They deserve the opportunity to demonstrate that ability. That opportunity will come from a strong economy, able to produce the new jobs America needs. It's up to American business and American labor to make the economy work, not to just to make work.

I don't for a moment feel negative about our future. The nation has made progress. The number of jobs has increased by nearly 1,600,000 just since March of this year. In fact, recent gains in employment have brought us to the point where there are as many Americans working today as there were in 1973 before the oil embargo when we were establishing all-time production records month after month. And as I indicated before, no growth makes no sense. Not for America, not for General Motors, not for anybody. And I affirm that our country's capacity to grow depends upon the productivity of its people. And I remain fully confident that we can forge greater productivity out of the energy, the imagination, the innovation that still abound in our great industry and in our nation as a whole.

Like my predecessors in General Motors, I believe with Woodrow Wilson that labor is not a commodity, but a form of cooperation. And in this spirit, we approach the critical negotiations of

1976. We need improved productivity to turn back the unprecedented competition from overseas and to maintain and expand our position in the markets of the world. A fair balance of productivity and compensation must, must become a national mission for management and labor alike. Management, I know, continues willing to take the risk necessary to a continued rise in productivity by its investment in the facilities and tools. The vital question is, are the unions and the individual employees willing to do their part? And upon that answer, the answer to that question, much of our national economic future depends.

And I tonight cannot predict the answer. But I can speak for one company's determination to deal in a spirit of cooperation, to work for the right answer, and as an American who is concerned about our country's place in the world; my hope is that an equal determination will be found throughout American industry. Thank you very, very much. (Applause)

Chairman J. Paul Lyet: Thank you, Tom, for those interesting and challenging and sobering remarks. As the New York Times found this morning, when it attempted to summarize the career of Paul A. Volcker, it's not something you can do in a few words. You can't convey the significance of his work in a few words for our country. Paul Volcker, as the New York Times said – not this morning, but on another occasion – is probably the only figure who can take on the 6' 8 ½" John Kenneth Galbraith eyeball to eyeball. The Times was speaking, of course, not only of Mr. Volcker's unusual height but also of his towering stature in banking and finance and economics. Paul Volcker has excelled in the worlds of education, banking, and government.

Since last August, he has been President of the Federal Reserve Bank of New York. From 1969 to 1974, Mr. Volcker was Under-Secretary of the Treasury for Monetary Affairs and those were turbulent years. He had to judge the nation's monetary affairs during periods of price controls, spiraling inflation, two devaluations of the dollar, and the onset of floating exchange rates. He achieved the reputation for managing the federal deficit in a way that minimized disruption of our domestic capital markets. It seems only just that Paul Volcker is now President of the New York Federal Reserve Bank because it was his first job at the bank as an economist some years ago.

In spite of his varied and highly successful career, he is, as you will see, still a young man in years and I'm sure that you'll find he is young in spirit as well. And I am pleased to introduce to you, Paul A. Volcker, whose topic is "The Dilemmas of Monetary Policy." Paul Volcker. (Applause)

The Honorable Paul A. Volcker
President, Federal Reserve Bank of New York

Thank you Paul. Fellow New Yorkers. I'm emboldened to use that rather blunt salutation for a number of reasons and the first one is personal. I was reminded the other day where my own roots lay. I heard a tape-recording of some remarks I had made, and after spending three-quarters of the past sixteen years in Washington, I confessed to being startled by what I heard – the full rounded tones of a home-grown New York accent. Perhaps it's just that the circumstances make me a little self-conscious.

I returned to this great city just in time to see it struggling with its greatest challenge. That challenge comes packaged in financial wrappings. But there can no longer be any doubt that underneath the wrappings there are issues that run deep into the economic and social fabric of the city and its relationships to the state, the nation, and even the world.

Now my intent tonight is not to dwell at length on the problems of the city. After all we have read and heard, to try to describe the current situation would risk tedium and being dated by tomorrow's papers at the same time, and that's no mean trick. What does strike me, as I have observed the debate on New York, is that we are seeing here in sharpened and exaggerated form issues closely relevant to the broader debate on national monetary and economic policy.

It would be easy to generalize too far. Our local problems have been aggravated by the particular pressures endemic to older urban centers and some peculiar to New York. But after allowing for all the special circumstances, the competing cries that we hear for more financing on the one hand and for more adjustment in services and budgets on the other seem to me to parallel some larger dilemmas in national policy. In the country as in the city, I do not think that any financial acrobatics can substitute for hard, definitive decisions and actions on the substance of the problem.

Now quite obviously economic performance in recent years, not just in the United States but elsewhere in the world, has fallen far short of the standards we set for ourselves. We've seen at the same time in this country the highest levels of unemployment and the highest levels of inflation in the post-war period. While the 70s have seen boon as well as recession, real growth has slowed to 2% in the past five years as a whole and productivity growth has sagged. Real take-home pay of the average man and woman at work and real profits have both declined over the past two years – a most unusual combination of circumstances.

It's not a very pretty picture. Measured against the exuberant hopes of a decade ago, it seems even more disquieting. The mid-1960s, you will recall, seemed the golden age of economics, leading practitioners, particularly as they left government service, to lecture with apparent justice about how we had destroyed the old methodology and had finally learned to apply the lessons of modern economics to practical policy.

Growth would be assured. We could extend all those trend lines showing a rise of about 4% a year in the real gross national product almost indefinitely. Deviations around the trend would be contained. We could calculate, if we wished, to tradeoff – a little more inflation for a little more employment or vice-versa depending upon our social preferences.

You know it was almost as if after proving, when we set our minds to it, we could go to the moon, we could somehow run the economy at the console of the computer as well. Well, it didn't take long to shatter those visions. Today we make more forecasts. We wrap them up in more mathematics. We use more complicated models. And we certainly use up much more computer time. Yet somehow we have less confidence in the results. In frustration, we're tempted to ask if the textbooks have any relevance and whether our economic theories are in need of wholesale revamping.

Why have the events diverged so much from the expectation? One approach to the answer seems clear enough. We've permitted ourselves to get caught up in an inflationary process. I could list at length the ways inflation has impaired our economic performance and prospects, particularly by distortions in financial markets. Indeed, in my written text I did so. (Laughter) However, a central banker citing the evils of inflation hardly provides anyone with a fresh perspective. We have to push the matter further. We have to ask ourselves why the inflation arose in the form that it did and whether the distortions in financial markets are not symptomatic of some broad occurrence in economic life.

When I was in college, some older economists were still fond of talking about a long cycle in economic affairs with protracted periods of buoyancy and exuberance eventually giving way to periods of uncertainty, slow growth, and outright contraction. Now when they related these long cycles mechanically to such esoterica as the appearance of sunspots, the professors found it easier to debunk. But I wonder if there was not more than a germ of truth in terms of human behavior in some of those older economists' observations.

It took a long time after World War II to convince ourselves that prosperity was really here, that a relapse into a Great Depression was not a significant probability. By the mid-1960s, confidence had replaced these doubts. And as it did, the very serenity we felt about our economic future led us into patterns of behavior that have now turned out to be unsustainable. None of us individually would want to plead guilty, but we have to ask ourselves whether collectively we did not permit the general feeling of economic security, and even euphoria, to divert us from norms of prudent conduct, from a sense of limitation and restraint on risk-taking, essential to ordered growth and stability.

Now in raising this question of attitude and psychology, I don't want to ignore some obvious concrete facts of the history of this period. Our failure to face up to the financing of the Vietnam War in a timely way against the preponderance of economic advice, and much more recently the shock of increased energy prices. But even in those decisions, where political considerations plainly intruded heavily on economic judgment, the latter may have been weighed too lightly partly just because there was a sense that the future was assured, that we had the tools and the knowledge to repair any temporary damage.

With the benefit of hindsight, the evidence of overreaching, of putting aside traditional cautions, and taking new risks is now clear in financial markets themselves. For instance, as the call to performance took hold, active trading in securities replaced the sense of long-term investment commitment. We lost sight of the fact that performance was always dependent on access to highly liquid markets and on being among the first in and the first out. The glow of success could last only as long as most, in fact, did not want out. As the game broke down, the actual result was more instability and less perceived liquidity in many investment markets. Those facing the need to raise new capital found their task greatly complicated.

But the fact was even when market conditions were highly favorable; many business managers seemed to attach less importance to raising equity capital. Whether in financial institutions or elsewhere, they began to rationalize departures from old standards of capital adequacy and liquidity. In a world where downside risk seemed diminished, the attractions of high leverage were natural. We began to hear the theory that the only thing that mattered is you were no worse off than your competitors. After all, in the last analysis, the government would have to step in to prevent catastrophe anyway.

In such a climate, regulatory restraints chafed even harder with justification. There was a concerted effort to eliminate outmoded, archaic, and anti-competitive rules and regulations. In the banking world in particular relaxation of interest rate ceilings and the role for liability management seemed to open new vistas for expansion without clear limitation. Freed from all restraints, loan officers could move more aggressively at home and abroad, and their activity often seemed to support the objectives of national policy as well. But it's possible to question whether the enthusiasm for eliminating the old and outmoded was matched by the regulated or by the regulators with recognition of the need to retain and shape safeguards suited to today's conditions.

Similar psychological processes were at work elsewhere. In a world in which workers are told an average rise in real income of about 3% a year is virtually assured, there are going to be very few who are satisfied to remain below the average. Many will find easy justification to exceed it. We seized opportunities to take giant steps forward on behalf of the old, the infirmed, and the unemployed. The trouble was that all together the new demands exceeded the capacity of the economy. We were hardly prepared for a situation in which external forces, whether because of poor crops or an oligopoly-imposed increase in oil prices, inexorably squeezed the living standards of most workers.

To return to home for a moment, some of this same psychology must have accounted for the understandable eagerness of the city and its citizens to remain in the forefront of social progress despite a weakening in its economic base, without the alarm bells ringing at a much earlier time. Against a background of prolonged prosperity and high priority for social objectives, what could be more natural than to make full use of welcoming bond markets. That such resort involve some abrogation of irritating budgetary and financing conventions, could not this be accepted in an era of creative and innovative finance? In the long run, after all, growth and inflation would smooth over all the difficulties.

Now I recognize the danger of abstract theorizing about human psychology. Nevertheless, in retrospect, attitudes developing over the past decade do help to explain some of the dislocations and difficulties today. It was not so much, as I see it, a conscious willingness to take large new risks, but that the consciousness of risk was itself reduced. It was not so much that we saw ourselves acting without a sense of prudence, but that the definition of prudence was itself changed. It wasn't so much that we thought the laws of economics had been repealed, but that we could manipulate them to our will.

Now I recognize there is a school of thought that would lay the blame much more directly at the feet of monetary policy. According to this thesis, inflation is always and everywhere a monetary phenomenon. There's no need to look further for culprits or to seek an explanation in changes in economic structure or attitude. I'm not about to deny the correlation between the growth in the money supply and the price level. Over a long enough period of time, excessive growth in the money supply is bound to bring higher prices. But taken alone, the monetary explanation seems to me seriously incomplete. For one thing, the correlation between money and prices is far from perfect. There's no way that even the relatively rapid monetary expansion of 1972 and '73 averaging 7 ½% can by itself explain the double-digit increases in consumer prices and the much stronger surge in wholesale prices last year.

Monetary policy doesn't work in a vacuum – political or economic. It seems to me unrealistic to the point of being meaningless to say for instance that monetary policy can always press to whatever point may be required to bring price stability. We have to consider whether the result of that action would be consistently high unemployment, prolonged inability to finance the investment needed to support a growing economy, and even dislocations in our basic financial structure. If monetary policy has to bear the load alone, cutting across the grain of other deep-seated elements of economic behavior, those kinds of consequences can't be ruled out.

Neither, to take the other side of the coin, can the monetary authorities reasonably accept whatever they find in the way of price expectations and other economic pressures and proceed within that context to provide whatever money and credit is needed to finance ever-higher levels of business activity. Such an approach can only reinforce inflation and require that we validate every excess in the behavior of large economic units. The result, it seems clear, might be to postpone the day of reckoning but not to avoid it.

In important respects, the problem from a national perspective isn't all that different from the problem of how best to deal with the situation facing New York. At one extreme, to ask for and to receive financing without real adjustments in the underlying economic and budgetary situation would merely pave the way to a larger crisis in the future. To expect adjustment so quick and draconian, that new financing will not be required over a transition period, may be equally short-sighted.

My thesis is simply that the chances for improved performance in both the nation and in the city seem to me to rest on changes in attitudes that have been nurtured over a long period of prosperity and stability. The harsh reality is that such changes seldom take place except under the pressure of events. And in our market system, these pressures for change, the signals for action, typically come in financial form. A business or a government exhausts its credit resources. Individuals cannot spend beyond their income for very long. The unprofitable and undercapitalized firm eventually capsizes in an economic squall.

Now we can't expect that kind of market process to be entirely smooth and steady. But we can be sure that it will be speeded and eased to the extent individuals, businesses, and governments recognize the need for changes in behavior and attitudes that rested on conditions that no longer exist. I recognize, too, that our success will depend as well on the skill and wisdom we can marshall in shaping our monetary and fiscal policies. In some respects, the setting is propitious. We can shape those policies against the background of a rapid rebound in business activity. Despite some nasty surprises, the overall picture on inflation this year is at least better than last. Moreover, the improvements in productivity that should accompany expansion offer some prospect that the rise in labor cost per unit of output could moderate for a period, even as business improves.

Nevertheless, both in production and prices, the outlook for 1976 and beyond seems to me hardly

assured. The vigor of the business recovery so far has been heavily dependent on the cessation of inventory liquidation. Consumer spending spurred in part by the tax cut has helped. But sustained growth will depend on incomes generated in other sectors of the economy.
A normal sequence for sustained business recovery would look to housing and later business investment to become driving forces. It can happen that way again, but we'd be blind to ignore the factors that could interrupt the sequence. The renewed sharp pace of wholesale price advances in October is warning enough if any is needed that cost and price pressures are still strong and could undermine prospects for continuing strong recovery. Backwash from the financial difficulties of New York City, the state, and its agencies could complicate the job of financing expansion and markets already suffering from inflation and past excesses.

All of this points out some critical questions for the Federal Reserve – questions that deserve answers. To me, the answers to those questions become a good deal clearer and perhaps not even very controversial if examined from the longer perspective of the basic functions of the Federal Reserve System. The first of those functions, and the one that attracts so much comment year in and year out, is to maintain overall supplies of money and credit of levels conducive to growth and stability. The second, and sometimes it's almost forgotten except in times of strain, is to ensure the orderly functioning of the credit and payment system through thick and thin.

And dilemmas and even conflicts can arise in discharging these functions. Today, in providing money and credit, we do not face the classic textbook alternatives of dealing with unemployment or with inflation. We have to face them both at the same time. But I would suggest there's a reasonable approach to that dilemma. I must myself confess a certain natural past, and I suspect future, skepticism about announcing money supply targets or ranges over a substantial period of time ahead. Set too narrowly and followed slavishly, they may imply too little operational flexibility to meet changing circumstances. As a matter of concept, they may imply a degree of faith in the crudest forms of monetarism that policy can be set and judged entirely in terms of the money supply, that I do not share.

Nevertheless, in the particular situation we face today, I believe it's distinctly helpful to set to out the general dimensions of our intended policies in such quantitative and therefore relatively unambiguous terms. Those making economic decisions can then shape those decisions in a context of fuller knowledge about the intentions of the policymakers.

Now I'm not going to attempt tonight to debate the particular appropriateness of the precise numerical ranges such as the 5 - 7 ½% growth target range currently in effect for one particular definition of the money supply, whether it could be a bit higher or lower, whether the range itself is too narrow or too broad. But I will defend strongly the general implications of the numbers. The Federal Reserve will not willingly finance new excesses and increases in the rate of inflation, nor will it insist immediately on limiting money growth to rates fully in line with the growth of our real productive potential in circumstances where the strong forward momentum of price increases in the pipeline must be given some weight. Now over time a return to price stability necessarily implies a slower growth of money and credit than our present objective. But our present policy of steering between the extremes, a policy that's perhaps inadequately been described as moderation, seems to me both clear and intent and fully defensible.

Now in present circumstances, particularly in this city, it's worth remembering that it's a second of our functions to protect the payment system that was enshrined in the original Federal Reserve Act which was adopted, you will recall, after a series of banking crises that disrupted the economy. Essentially the broad economic policy responsibilities, so much debated in its specifics today, those responsibilities were grafted onto the original function over the years rather than the reverse. But I can assure you, this basic statutory function which demands special concern for the functioning and health of the banking system is not forgotten. That continuing concern finds its reflection in part in the day to day discharge of our responsibilities for the supervision and regulation of banks.

The occasionally more dramatic but seldom required part of the role is sometimes described as the lender of last resort. Because in recent years recourse to the Fed for credit has so rarely been required on any scale, clarity in our approach in that respect would be useful too. The law provides the Federal Reserve with only very limited emergency powers to lend to non-bank borrowers for rather closely defined, short-term liquidity needs. In a real sense, the presumption is against such assistance to non-banks. Consequently, short-term credit for liquidity purposes has not, for instance, fit the particular circumstances of New York City where the credit need has been for a substantial period, where the budgetary problem has been central, and where the difficulties have not arisen as a result of market disturbances but from basic problems of the city itself.

By statute and policy, the presumption is quite the reverse. Should the stability of the payments in the banking system be questioned? Indeed, it is the central legal and policy duty of the Federal Reserve to assist banks in coping with pressures created by extraordinary economic strains, and particularly to maintain the depository function unimpeded.

I emphasize this side of our responsibilities in recognition of the concern that some have expressed about the impact of a default of New York City on the local money market banks. It would, of course, be much more accurate to describe those banks as national and international institutions that happen to have their home offices in the city. They hold city securities, slightly over $1 billion in the aggregate. But that amounts to less than three-quarters of 1% of their earnings assets and to little more than 9% of their total capital in reserves.

Should those securities be substantially impaired in value over a long period that would cause some obvious implications for future profits? But it's by no means obvious, or perhaps even likely, that any serious impairment would last. Doubts on that score where the value will be impaired over time have led to supervisory authorities to decide to defer for up to six months following any default the mandatory write-down of the value of those securities.

Even then, an unavoidable impact on profits which have generally been rising in recent years is quite a different thing from the default of New York City affecting the basic stability of banks. The holdings simply aren't that large. (Applause) The problem, if it exists, would lie in psychological apprehensions. And the classic response of the Federal Reserve would be to act forcefully and freely to provide an alternative source of liquidity.

Now all of this falls in the category of contingency planning. As matters stand, I have been encouraged in recent days that the state and the city are coming to grips more directly with the budgetary problems that underlie the financial crisis and their affairs. In my judgment, questions about the financial health of the state can be resolved and the marketability of its securities can be restored in a reasonable time frame.

Even now, with the clock running fast, the needed combination of stern budgeting and residual financing for the city should not be wholly beyond the reach of those interested in solving the problem and in limiting and containing its repercussions. Indeed, I would go further. The kind of agonizing adjustment in practices and attitudes the city and state are facing in a most acute form find their counterparts in other areas of our national economic life. The problems differ in detail and scope. The process of adjustment will never be quick and painless. But our collective response can lay, and I believe is laying, the basis for a return to stability and prosperity.

Now in their business and public life, most of the men and women in this room, and I do not exclude myself, have for a long time seen their horizons and their preoccupations extend to the nation and the world. For too long those few, laboring for the financial and economic strength of this city, away from the spotlight and amid all the frustrations, have had too little of our support.

Today we begin to realize a simple truth – that honor and fortune alike rests ultimately on the good health and prosperity of our city. Out of this travail, I, for one, believe we can help make New York an example, not of default and decay, but of how to learn from experience, respond to adversity, and restore stability. You know call it what you want, whether in irony or praise, Fun City, The Big Apple, The Capital of the World, we can be sure that whatever we do do here is going to be more than a symbol. It can be a real turning point, not just for New York, but for the nation as a whole. Thank you. (Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN J. PAUL LYET: Thank you Paul. You have given us a frank, illuminating, and most encouraging message. And we, fellow New Yorkers, appreciate it very much. And now to the questions. Here is James O'Leary of the United States Trust Company to question Mr. Murphy.

JAMES J. O'LEARY: When Paul Lyet and Tom Murphy and I met earlier this evening, it was stated that Mr. Sadat was a little nervous about the questions, the fact that there would be questions asked of him, and it was suggested that one of the things that helped was that he was asked those questions in Arabic. And Tom Murphy suggested that maybe I could ask the questions in Gaelic and he'd answer the questions in Gaelic. Tom, I couldn't agree more, and I'm sure your audience couldn't agree more, with the view that it is terribly important as we look to the future that we have a better corporate profit picture, improved productivity, and that we keep labor settlements, labor compensation, within the range of productivity increases. My question to you is, how do you evaluate your upcoming negotiations in what will be a very important set of negotiations with the automobile workers?

THOMAS A. MURPHY: Well, as always, we approach our labor negotiations in 1976 in a spirit of cooperation. (Laughter) I'm serious. We want to be sure that our people continue to have the advantage of good working conditions and good wage rates. We're dedicated to that. We think we do a pretty good job of that. We expect to have some understanding and appreciation on the other side of the table for the benefits that they have received, the protection that they've had against the inroads of inflation during the past two years – it'll be three by the time we get to the contract negotiations in the fall. I feel very strongly that we have to have a complete understanding and appreciation on the part of all people that there's no such thing as a free lunch, that we cannot increase wages and we cannot reduce working time unless we as a nation become more productive, and correspondingly more productive in accordance with the increase in the wages. It just seems so axiomatic. And I think we've seen this process of chasing ourselves as inflation has gone up with nobody really benefitting and the country being faced and plagued with a lot of problems. So from our standpoint, we intend to get our viewpoints across to try to get the union to understand, as I'm sure they will, the realities of bargaining and hopefully to reach a settlement without any labor interruptions, because that is counterproductive. We are not going to be able to solve our problems. Some of the problems we've seen, for example, in the U.K. have been because of these incessant labor stoppages that rob productivity and rob ability to run a good business in keeping with the desires of the nation and the individuals in that nation.

JAMES J. O'LEARY: My second question is this, that since the first quarter of this year, real gross national product, real output, has increased $24.6 billion. According to the Department of Commerce, real gross auto product has increased $12.2 billion. These figures would suggest that since the first quarter of the year, roughly half of the recovery in GNP has come from the automobile sector of the economy. If you just take the third quarter, real GNP in the third quarter increased $21 billion at an annual rate; gross auto product increased $5.2 billion at an annual rate. In other words, a quarter of the recovery in the third quarter might be attributed to the automobile sector. Can we count on further strength in the automobile sector as a means of helping us out of this recession?

THOMAS A. MURPHY: You could all help by buying cars. (Laughter) We intend to be there competing aggressively and trying to get the automobile buying public turned on. We have, we did bottom out. We had a very poor fourth quarter of last year. We had a resurgence in the summer months last year and then when our new models came out, the buyers just weren't there.

We had a poor fourth quarter. We had a poorer first quarter in the sense that we were inducing the market with the rebate programs and when they were finished, we bottomed out in April. The annual rate of passenger car sales has increased virtually every month since April. And in the third quarter we were selling in the industry at a rate of about 9,200,000. Now encouragingly, that was up about 2 million over the low point in April, and practically all of that increase was in the domestic produced automobile sales. So we have contributed. And I think the American buying public have seen the attractions in our products and I hope they'll continue. Now we're not, we're looking for a continued slow upward movement in our sales as we go through the 1976 model year. We think that passenger car sales in this country should total 10 million approximately in the 1976 model year, trucks in the area of 2,700,000. And if we get that we'll be up about 21% over the 1975 model year. So I'd say that would be a very encouraging thing and I would say we would make a contribution, maybe not of the same order of magnitude that you recited. I think the other thing, of course, some of the improvement in the gross national product, particularly in the third quarter, was inventory liquidation slowing. We had accomplished our inventory liquidation, I hope, before that. So maybe we can get our production going so that we'll match at least our sales record.

HENRY KAUFMAN: Paul, if I may, I would like to pose my first series of questions pertaining to the problems of the city of New York. I believe that audience would very much like to know whether you favor the proposals that have been put forth by Congress. Do you side with the Chairman of the Federal Reserve Board? Or where do you specifically stand on the issue?

(Applause)

THE HONORABLE PAUL A. VOLCKER: You managed to put that in the least provocative way possible. (Laughter) I have said before, I think I said again in my speech, that I don't see how this problem is resolved in an orderly way. And I think in an orderly way, whether there was a period of default or not, without some kind of financing assistance – and as a practical matter, I don't see where that can come from, except from Washington at the moment. Whether it takes just the form that is in the bills in the House and the Senate, I think is another question. Those bills basically have two different kinds of provisions – one contemplating a rather large financing job and another saying, well; in any case there will be some kind of residual seasonal financing need. As I understand it, there is at least still a possibility that the city could manage on the latter basis through some financing proposals that are under discussion.

HENRY KAUFMAN: Paul, assume for a moment that the city would default, under those circumstances how do you view the chances of the state and its agencies to survive financially considering their needs in the immediate future.

THE HONORABLE PAUL A. VOLCKER: I think the financial health of the state is within the state's capacity and hands. They do have a budgetary problem. They have suffered as a result, a backwash of the New York City situation. But there's no doubt in my mind that if the state steps up to this problem, and there are signs that they are moving in that direction, that the financing capability of the state can be restored by the time they have to do any financing in any size, which is next spring. They have a considerable breathing space here.

HENRY KAUFMAN: Paul, just one final question on this matter. If the state were under these constraints because of a city default, do you envision that the circumstances would be such that the Federal Reserve Board in that instance could act as lender of last resort for the state?

THE HONORABLE PAUL A. VOLCKER: I don't see a role for the Federal Reserve in these circumstances. As I suggested, I think the state can take care of its own problems and they've got enough time to do it. The quicker they get at it, the better. And I would hope to see some action there in the next few days. And against that kind of background, I don't see why there's any reasonable cause for real concern about the state over a period of time.

JAMES J. O'LEARY: May I come back to Tom Murphy. Tom, we've been hearing a great deal in the last week of the possibility of an antitrust action against General Motors. Is there anything you can tell this audience as to what your reactions are to this particular story that's going around?

THOMAS A. MURPHY: I've heard the same story. I have a strong feeling that we, in General Motors and any other business in the United States, ought to be competitive. And we ought to be out trying to get as much business as we possibly can. And if we do that, and we discharge our responsibilities within the law, and earn whatever competition and whatever competitive edge that we can by serving customers and by doing the best job, then I say that's in keeping with our American system. And I would expect it to be true. When I find ourselves accounting, in the model year just ended, for 43.2% of the total industry sales in this country and that was up two-tenths of a point from the previous year, I don't know why anyone would be concerned about our competitive position, except myself. I think it ought to be better, and we intend to make it so. (Applause)

HENRY KAUFMAN: If I may return, Paul, now to the commercial banking system, you seem to express some dismay tonight concerning the lifting of such things as the Regulation Q ceiling on interest paid on negotiable certificates of deposits. Now would you like to see it reinstated or would you prefer some other sort of constraint substitute be put in place?

THE HONORABLE PAUL A. VOLCKER: I think it's probably not possible given today's circumstances to go back to an interest rate regulation of the sort that was used rather regularly in earlier years. I did express some longing that, some nostalgia perhaps, that that was a device, however crude, that made it more possible for the authorities to exert control of banking expansion, control of banking lending, perhaps more effectively than some other devices at our disposal. And I miss a little bit having a facility that does the job. Now just what might, over the course of time, replace the kind of function and maybe do it better, that Regulation Q used to do, I don't think there's any easy answer to. I do think that you will find, and they weren't very popular, and this the period before I was connected with the Federal Reserve, that the Federal Reserve Board was among the more aggressive, and has been among the more aggressive of banking agencies in a sense, in calling attention to capital problems, to the problem of management spreading itself too thin over too many ventures, over too rapid a period of time, over too wide an area of the world. I think that that kind of attitude reflected, and does reflect, some of the realities that I see underlying some of our problems in recent years. There's some element of restraint which is very aggravating to those restrained when things seem to be going very well. It turned out to be useful when things are going less well.

HENRY KAUFMAN: Just on that point, Paul, your predecessor, I believe earlier this year, and your predecessor is sitting on the dais, had some strong views about the bank enlargement of its capital positions. Do you feel that this enlargement is taking place at a pace acceptable to you? Or what are your views on this in terms of the banking community that's present here today?

THE HONORABLE PAUL A. VOLCKER: Well, I think under the circumstances, which are difficult, it is proceeding as fast as reasonably could be expected. What concerned me was the long trend we had had over quite a few periods, quite a long period of years, of declines. And if you projected that trend ahead, you would have a problem. I'm hopeful that that trend has been stemmed partly from the side of more capital, partly from the side of less rapid rate of expansion. So that we are in the period, and these periods are always difficult, that's the point, where we see some change in a trend that extended over a further period of years would have been unfortunate.

JAMES O' LEARY: Coming back to Tom Murphy. In your talk this evening you voiced a theme that has a great deal of appeal to me. And that is that the long run future of this country depends heavily on reorienting our priorities toward investment spending in the economy, away from consumer spending. You didn't quite put it this way but that was the message that I got. I feel very strongly myself that this is where we should reorder our priorities through improving the whole corporate profit picture, the ability of business firms to finance themselves out of retained earnings. My question is what can General Motors, what can business do to get that point of view across which I think is terribly important as a public policy issue at this time?

THOMAS A. MURPHY: We have to do a better job in my judgment of explaining the real correlation between business profits and business jobs, the jobs that business provides, and how essential it is for the progress of this country that we continue to have industrial capability and that we do keep that industrial machine of ours productive. We, as businessmen, I think have taken for granted in the past that everybody understands and accepts that philosophy. I don't think that we can assume that. I think we have to get out, we have to demonstrate by our abilities and by our performance that we do run effective operations, that we do serve the public well. And if we continue to serve the customers well, then our profits should be forthcoming, if we run an efficient ship. And when we get finished, then we should be generating the profits. And I think we will get acceptance on that if we do good jobs and at the same time not be bashful about, we are profit-seeking organizations. We're willing to take risks, and we're entitled to return on our investments, our stockholders investments, just as any individual that's worth his salt is entitled to a return for the fruits of his labor. We haven't done a good job in this respect. We've got to get out and speak up. Do the job in our plants and in our selling organizations. But we also, I think, have to speak up before any forums that we can. And not just ourselves, not talking to ourselves in the Economic Clubs and the Chamber of Commerce, but we've got to speak to the unfriendly type audiences and try to explain to them what it's all about, what we're trying to do, and the importance to America. This country is great, and I think it's going to continue to be great. It's great only because a lot of people work very hard at it. We've got to continue to demonstrate the need for that type of performance, the preservation of the freedoms and the opportunities that go with it, in my judgment. (Applause)

HENRY KAUFMAN: Paul, if I may, I'd like to turn to the fiscal side because you were in the Treasury and you are a recognized expert. The president has now proposed a package of $28 billion tax reduction and a delayed slowing in the rate of expenditures. The Congress seems to oppose. What would your preferred fiscal posture be over the period immediate ahead?

THE HONORABLE PAUL A. VOLCKER: Well, I confess the president surprised me a bit. I think we can, under the circumstances and the economy, certainly use an extension roughly of the tax reduction that we had this year. I didn't particularly like the form of that tax reduction, but in general magnitude I think it was reasonable and I think it should continue for a while. Now whether it could be substantially larger, as the president has proposed, rests upon the other side of that equation about the real prospects for a substantial cut in expenditures. And over time I have a great deal of sympathy for the philosophy expressed in the approach that he set forth. Whether or not it is really feasible, and with time lag involved, to count on the expenditure restraint, I must confess I am a bit skeptical.

HENRY KAUFMAN: Well, where do you stand on the crowding out issue? This is my last question. I understand the chairman is going to take over after this. Do you think that I'm being crowded out and has the market been crowded out to an extent?

THE HONORABLE PAUL A. VOLCKER: No. I must confess I thought under the present circumstances, something too much has been made of that issue. I say under present circumstances, I'm talking about a period in which the economy is operating well below its capacity. And I think if we look at what's happened in the past six months or so, there were great fears consistent with that theory that the size of the federal deficit – and I don't want to defend the deficit as big as we have – but that that would almost inevitably bring very large increases in the money supply and future inflation if it was going to be financed or bring...or that it...

HENRY KAUFMAN: Do you think it held back housing?

THE HONORABLE PAUL A. VOLCKER: Well, let me finish...or that it would crowd out your mortgage seekers and a lot of other people. Well, if you look at this experience over this six-month period, we've had a very slow growth in the money supply. We have a lot of critics for having it so slow. Interest rates are as low now as they were in the spring, roughly. So I don't think, and the Treasury has done one hell of a lot of financing. And you put all those factors together, and during this particular period, and I would emphasize that you're talking about a period with a very substantial underutilization of the economy, that we've managed to do this without evidence of what I would interpret anyway as the popular notion of crowding out. (Applause)

CHAIRMAN J. PAUL LYET: At this point, I would like my fellow club members to express their appreciation as I will for the splendid job on the part of our speakers. (Applause) It is now 9:56. The Meeting is adjourned.