The 1980s have been especially difficult years for industrial areas of the country. We have experienced an enormous transformation in our economies. Once-prominent industries have declined in absolute and relative importance. Under the pressures of competition, firms have been forced to alter operations and restructure facilities. Change of this sort is usually painful for the people and the communities involved, but if change is inevitable and leads to a better world, then much has been accomplished.

Here in the Fourth Federal Reserve District, the results of change are emerging, and two observations can be made concerning the future of our economy. First, the manufacturing sector will continue to be important, but will employ a smaller proportion of the labor force. Second, the service sector will continue to grow, as measured both by employment and output.

The service sector’s dramatic rise has not meant the deindustrialization of our region or the country, any more than the massive shift of employment from agriculture to industry at the turn of the century led to a loss of output in agriculture. Manufacturing will continue to be a basic component of our economy and the nation’s economy. In fact, it still claims roughly the same percentage of GNP that it did after World War II—a share that may well rise somewhat in the next several years as we close the trade deficit—even though its employment share has declined sharply.

Nineteen eighty-seven has been heralded as the “Year of Manufacturing.” Nationally, manufacturing output in 1987 rose by 5.7 percent over 1986, and manufacturing employment also rebounded. Last year, over 300,000 factory jobs were added, an increase of 1.6 percent. Although the increase last year was the largest since the early part of this expansion, it comprises only 11 percent of the 2.8 million jobs created between October 1986 and October 1987. The service sector, which claims 24 percent of the economy’s jobs, generated 1,083,000 jobs, or 37 percent of the total new jobs, over the same period.

These statistics tell us that manufacturing output continues to expand, but with fewer workers. The general shakeout in manufacturing experienced over the last eight years has resulted in a leaner, more competitive manufacturing sector. Productivity in the manufacturing sector has been rising at a rate of 3.3 percent per year since 1980—twice the rate of growth of productivity in the total business sector. Industries have made conscious efforts to modernize their facilities. According to recent surveys, new plant investment is being targeted more toward modernization than toward expansion.

We expect the structural change that has been underway in our local economy to continue. In order to see continued positive results from this restructuring, we will have to see continued improvements in the productivity of our manufacturing sector and of our service sector. We are after all going to be forced to compete with other regions and countries in export markets for services. This can be accomplished only in a stable economic environment—an environment of stable prices and stable taxes. We have to remove the uncertainties that are created by high and varying rates of inflation, and consequent high interest rates. In a stable economic environment, industries can make long-term investments in plant and equipment that will contribute to further increases in productivity.

We have made much progress towards a noninflationary, more market-driven economy, but we are not there yet. As the turbulence in financial markets of the past several months so clearly indicates, some people doubt that we will conclude the voyage successfully. To get back on track, I believe economic policymakers here and abroad should focus again on long-term objectives. We should specify the objectives and announce them publicly. We should make the objectives clear, and we should assign priorities to them. These steps will strengthen the commitment of policymakers to achieve the objectives and announce them publicly. They will strengthen the credibility of policy.

Sources of Uncertainty in Financial Markets
Of course some degree of uncertainty is inherent in financial markets, but I believe the developments of recent...
months are symptomatic of a deeper short-run whether a nation's policies economic growth, we do not intend to make the capital a weaker economy in 1988 than is now the money growth has accelerated beyond the order of the day for policymakers.

The government can run deficits, but the ultimate issue of a truly global economy. Surely we are moving toward a more global economy. Never-...