

recovery, monetary policy remained easy, partly through conscious effort of the monetary authorities, partly because expansionary forces have not been as strong as expected, and partly because 1961-62 may mark the end of a rising trend—related to inflationary expectations—in interest rates.

2. Balance of payments and gold outflow considerations currently demand a more restrictive monetary policy than would be desirable from the standpoint of the domestic economy. To this extent, fiscal policy must be more expansionary than would otherwise be necessary in order to promote domestic economic expansion and narrow the excessive gap between our economic performance and our economic potential. Indeed, closing this gap can play an important role in building longrun confidence in the dollar. As the steps currently being taken to eliminate the balance-of-payments deficit and strengthen our international monetary position achieve their objective, the curbs on our freedom to use monetary policy to meet the needs of the domestic economy will be progressively reduced.

3. Any move toward sizable tax reductions must, of course, be accompanied by a willingness to move toward higher interest rates if this should prove to be necessary (a) to discourage any adverse capital flows that might develop, or (b) to offset any inflationary pressures that might ensue if the rebound toward full employment should prove to be unexpectedly rapid. With a gap of approximately \$30 billion between actual and potential output, the prospect of inflation from excess demand is surely remote.

4. If budget deficits are incurred, the method of financing them must be carefully adapted to the prevailing economic circumstances. A careful balance must be struck between bank and nonbank financing, a balance which will not thwart or nullify the expansionary effect of budget measures in an economy with excessive unemployment and excess capacity, but will prudently shift Federal debts into nonbank hands as the economy comes close to or reaches full employment.

Summing up, let me say that relative monetary ease has facilitated economic expansion in the recovery of 1961-62; that even greater ease would have been possible in the absence of international payments pressures; that those pressures throw an additional burden on fiscal measures as part of a coordinated economic policy for full employment and faster growth; and that care must be exercised not to overcompensate for such international monetary pressures by premature or excessive tightening of credit and interest rate.

CONCLUSION

We would be dangerously complacent if we focused only on such impressive advances in our economic well-being in recent years as:

The rise of over \$50 billion in gross national product since the first quarter of 1961, and the accompanying rise in employment, personal income, and profits.

The shrinkage of our balance-of-payments deficit from \$3.9 billion in 1960 to \$2.5 billion in 1961, and the prospect of further shrinkage to \$1.5 billion or less this year.

The 4 years of stability in our wholesale price level since 1958.