held money supply was 3.6 percent, consumer and wholesale prices were virtually stable, and the average annual increase in industrial prices was only 1.1 percent. But during the period of economic stagnation, 1955–57, the average annual increase in total national production was only 1.7 percent, induced substantially by an average annual increase in the nonfederally held money supply of only 2.5 percent, while there was an average annual increase of 2.5 percent in consumer prices, 3.1 percent in wholesale prices, and 3.6 percent in industrial prices. This whole analysis, which defies some of the conventional economic analysis, is based upon the simple proposition that you may have inefficiency resulting from too high a rate of economic growth or from too low a rate of economic growth. You may have inefficiencies resulting from an economy that is excessively taxed—I don't mean taxed in the technical sense—I mean has excessive pressures on it, or from an economy that is insufficiently pressured, just like a car going too fast or too slow burns too much gas per mile.

Most economists have only lately come to realize increasingly this point that I have been making, that an economy that is constantly moving up and down, that has a high level of unemployment and a high level of unused plant, tends thereby to be more inflationary than under fuller utilization, aside from the fact that you lose scores of billions of dollars of national product.

Moreover, the tight money policy and rising interest rates contribute mightily to the regressive redistribution of national income, repress desirable lines of activity far more than they affect the relatively excessive periodic booms in investment relative to ultimate demand, reduce the funds available to governments at all levels for essential public purposes by increasing the interest charges and by making it impossible for States and localities to borrow, and therefore contribute to all of the chronic imbalances in the economy.

The open declaration in recent weeks by spokesmen for the Federal Reserve System that they will tighten up on monetary and credit policies, especially if immediate tax cuts are undertaken to stimulate the economy, is an open declaration of war upon the programs which the Nation needs, and represents an almost unbelievably gross inconsistency in national economic thinking. This declaration of war, by the Federal Reserve System, while it does not say so openly, is tantamount to continued adherence to the indefensible proposition that large volumes of idle plant and manpower are indicia of economic health and are necessary to fight inflation.

I find it difficult in this connection to follow the logic of CEA Chairman Heller's discussion of monetary policy in his testimony yesterday. I understand he improved it some in response to questioning. He says this:

> Fiscal policy and monetary policy are tightly interwoven, indeed are in part substitutes for one another. A given stimulus to the economy can be achieved by a relatively easier fiscal policy coupled with a relatively tighter monetary policy, or vice versa.

Let me try to translate that into simple language. It is like saying that, if you take four steps forward and two steps backward, you are still taking two steps forward. But it is nonetheless true that the two steps backward cancel out two of the steps forward, and if you reduce taxes by $20 billion and tighten up on the monetary policy,