you may still have a net forward of $10 billion, but why should you cancel out the effect of one with the effect of the other, and if you have a relatively smaller reduction in taxes, the tight money policy can cancel it out entirely.

Representative REUSS. Did you underline the "vice versa" because you want to emphasize it?

Mr. KEYSERLING. I underlined the "vice versa" because it is underlined in Dr. Heller's direct testimony. In other words, I would have to ask him.

Representative REUSS. Is the policy combination implied in the "vice versa" more offensive to you than the alternative?

Mr. KEYSERLING. They are both offensive.

I believe it far more pertinent to point out that fiscal and monetary policies should in general reinforce each other; they should in general be complements, not substitutes. When general inflation threatens, both should be relatively tight or tightened; when there is very large economic slack, both should be loose or loosened. I have great respect for Dr. Heller, but in this instance I think that, instead of attempting to rationalize the perverse and damaging policies of the Federal Reserve System, he might well have called upon that System to bring its policies into line with the real economic situation as he understands it so well and with the policy implications thereof which he comprehends so fully.

Here I want to commend many members of this committee, including Senator Douglas, as I have said before, for their full realization of this point. The Federal Reserve System does not need a pat on the back; it needs a good jolting.

Fundamental conflict between fiscal and monetary policy, recurrent in recent years, is an anachronism. Indeed, at another point in his testimony, Dr. Heller admits that "monetary * * * policy must continue [sic] to aim at providing ample credit and liquidity to support needed recovery and growth." But Dr. Heller then delimits the force of this valid observation by saying that all this must be "consistent with the requirements of balance-of-payments policy." This brings me to the subject of the balance of payments and gold problem.

Senator PROXMIRE. I am sorry that you didn't hear all of the things that I said about the pernicious uses of a tight money policy to cancel out the effects of tax reductions.

On the balance of payments and gold problem, which is the final question raised in the chairman's announcement: I am sorry I can't analyze this one in more detail, because I don't know anything on which there is more national confusion. Our balance of payments and gold problem, while a real one, has been exaggerated and misused and subject to the wrong remedies, very analogous to the way in which the inflationary problem was exaggerated and misused and subjected to the wrong remedies in earlier years since 1953. The central reason for our unfavorable balance of payments and gold problem is not to be found in the record of our international exchange of goods. In this category, we have been averaging a very favorable excess of exports over imports, and our record in this category might be even better if we achieved the real improvements in productivity and costs which are frustrated by large economic slack and encouraged by fuller utilization of production resources.