

THE PRESENT POSITION OF THE ECONOMY

Without undertaking any detailed review of the present situation of the U.S. economy, let me espouse the generally accepted interpretation that the economy has for some years had excessive unemployment of labor and plant because total demands for final output were insufficient to buy our full employment output at stable prices, that business investment expenditures have failed to show the growth that was expected and that our circumstances called for, and that the continued weakness of the economy is resulting in revision of those optimistic expectations and planning assumptions that underlay people's economic decisions in prior years and that was one of the foundations of our successful economic performance.

No economic crisis or collapse seems imminent, but just as our earlier successes fed on themselves, so failure could begin to feed on itself, with consequences that no one could predict with confidence. I agree with most observers, I believe, in judging that with continuation of present Government policies a spontaneous generation by the economy of expansive forces sufficient to move us speedily back to full employment seems beyond the range of reasonable probabilities.

THE DEFLATIONARY NATURE OF RECENT MONETARY POLICY

The confusion and obscurantism that surround discussion of monetary policy may have concealed from many the fact that, at least as I see the matter, monetary policy in recent years has on balance been deflationary, has been of such a nature as to tend to produce just about the sort of economic weakness that has, in fact, developed. As we moved from the early postwar years to more normal conditions, as people's redundant balances of cash and liquid assets were used up and their urgent spending needs filled, we should expect that a more rapid rate of increase in the money supply would be required to sustain total expenditures at the full-employment growth rate.

What we have had is just the opposite. After increasing at an average rate of about $2\frac{1}{4}$ percent from the end of 1950 through mid-1959, the money supply has shown virtually no net increase in the past 3 years (about one-half percent per year). During the past half year, in which our economic hopes have withered so rapidly, the money supply also showed no increase.

The economy is a very complex and interrelated behavioral system and I am sure that the absence of monetary growth is not the sole explanation of the short fall of our growth in national product. I am quite persuaded, however, that it was an important contributing factor. Given all of the surrounding circumstances, including the limited intensity of spending desires, such restrictive money behavior surely was not conducive to expansion of total expenditures at the full employment rate, and may have been enough of an impediment to preclude it.

The people of the Federal Reserve are a most public-spirited group and their failure is not due to any nefarious intentions but, I take it, to misguided conception of the objectives and guides of monetary policy. They tend to think of themselves as controlling credit conditions, rather than governing the Nation's money supply. They seem