compare very favorably with those preceding 1951; first, because monetary fluctuation has been less, and second, those policies have been accompanied by lesser eonomic extremes such as inflation and deflation.

4. Adapting monetary change to the current economic trend may frequently prove inadequate and destablizing because of the lag and variability in the effect of monetary change upon total spending. Until we understand more about the lagged responses, we may be better served to maintain a fairly stable rate of growth in the quantity of money, approximately equal to the average annual growth in the total economy. The only feasible alternative is to base current monetary actions upon predictions of future economic change, since action taken today will affect total spending at a later and partly indeterminable date.

Under certain conditions, economic forecasts can be made with a high degree of accuracy, but that is not always the case. Although we can determine the average lead between monetary change and spending change, the average may not apply to a particular instance. The Friedman-Meiselman study indicates the highest correlation is achieved with a two-quarter lag after monetary change.

IV. Some Comments on Current Problems

A. THE STATE OF THE ECONOMY

The economy is currently expanding at only a modest pace, at a level substantially below full employment of resources and there appears to be no sizable stimulus on the near-term horizon. Consumer outlays are high and rising but the recent Federal Reserve Board survey of consumer plans suggests it is unlikely that a substantial increase will occur in this area over the balance of the year. Business investment surveys suggest modest further increases in capital spending and construction contracts appear large enough to sustain the present high rate of construction.

However, a further rise in construction on the order that occurred earlier this year seems improbable. Also Government spending may rise modestly over the balance of the year.

Furthermore, weakness is now appearing in those indicators which in the past foreshadowed a later economic decline. The NBER indicators appearing in the July issue of the U.S. Department of Commerce publication, "Business Cycle Developments," were mostly in a downtrend even though in many cases they are not far from previous peaks. No one can know if the current trend is foreshadowing a recession within 6 to 9 months from now, but unless current trends are shortly reversed, such an eventuality is a good possibility. In any event, the possibility of achieving full employment of labor and capital resources in that time period appears remote.

B. CURRENT POLICY DEBATES

Under present conditions of a sluggish economy and a balance-of-payments deficit, it is frequently argued the solution lies in an easy fiscal policy (large deficits), and a tight monetary policy. It is felt that a large deficit would stimulate the internal economy while a tight monetary policy would raise interest rates, and reduce short-