

A larger stimulus from policy, or less restraint, will be appropriate. Demographic changes influence the demand for housing and durable goods; major technological innovations or development of new consumer goods may strengthen or weaken private incentives to invest or consume. Where these influences on the strength of private demand can be reasonably foreseen, policy should take them into account.

But we also recognize the importance of unforeseeable shifts in private demand. And even where the direction and probable extent of shifts in the strength of private demand are clear, or the response of private demand to policy changes can be reasonably foreseen, the precise timing can never be forecast with certainty. Thus, national economic policies, however flexible, can never be expected to steer the economy along a precise course of continual full employment without inflation.

But absolute precision in fiscal adjustments is not necessary. The economy is capable of minor diversions from course without disaster. A moderate shortfall of total demand, maintained for a relatively short period of time, will not create massive slack, nor inevitably generate a cumulative spiral of recession. Nor does a moderate excess of demand, if not too long maintained, immediately generate an uncontrollable spiral of inflation. There is a fair amount of inertia in the system which prevents wild gyrations. And this inertial tendency is reinforced as businessmen, workers, and consumers gain confidence that the basic thrust of policies will be to prevent major deviations from course most of the time.

We know, moreover, that sudden changes in fiscal policy can impose significant costs. Government civilian programs cannot be efficiently turned on and off; and unexpected tax changes can hinder business planning. Circumstances do occur, especially in wartime, when the needs of stabilization require us to pay these costs. Normally, however, the pace of economic change is sufficiently slow that the necessary adjustments of policy can be achieved in the course of the Government's annual fiscal plan.

The experience of recent years, in our view, confirms several propositions:

It shows that reasonably accurate forecasts can be made of the strength of private demand and of its response to policy changes;

It demonstrates that flexible policy changes can keep the economy operating close to potential, even in the face of the great uncertainties inevitable in a war situation, when changing defense needs cannot be tailored to the convenience of economic policymakers;

Yet it also proves that the requirements of correct policy are far more demanding when the economy is close to full employment with reasonable price stability and we have high aspirations for maintaining it there.

We have also learned some lessons about the choice of our policy tools. We know that monetary policy can be adjusted on its own timetable and in small increments. And while monetary and fiscal policy complement one another in their impact on total demand, they differ in their relative impact on the subsectors of the economy, and in time lags between action and response are not the same for the two kinds of policy. Monetary policy can therefore be used to reinforce or partially to offset the effects of fiscal policy and to influence the time pattern of restraint or stimulus to the economy.