

lead to cumulative inflation, which we simply cannot afford at this juncture.

The argument is well established in economic theory that an attempt to maintain a politically determined interest rate by increases or decreases in the money supply can lead to cumulative inflation or deflation.

In addition to its implications for current policy planning, this interpretation of the past role of policy has important implications for the planning of the stabilization policy and for evaluation of the present policy-planning machinery. This interpretation argues that the Council's reliance on fiscal policy may be unjustified. It is difficult to believe that the past lack of correspondence between fiscal policy and economic developments can be reconciled with the proposition that fiscal policy is the main governor of total demand. Recent experience seems more consistent with the view that the crucial marginal constraint upon spending has been the availability of finance than with the Keynesian view that it is the will to spend. The presumed effectiveness of fiscal policy and measures such as the investment credit are associated with the latter view. If, as surely seems to have been true in 1966, the effective constraint upon spending was the availability of finance, a major effect of the large Government deficit and the investment credit may have been to drive up interest rates and cause spending constraint to be concentrated in the most credit-sensitive sector of the economy—housebuilding.

In my view, we presently lack firm knowledge on the timing and amounts of effects of changing fiscal and monetary policies. Recent developments in economic theory and research, as compared with earlier work, have emphasized the importance of financial variables and of short-run dynamic interaction in the economy—in these respects being at variance with the thinking underlying the Council reports. But the Council report does not seem to hedge against the possibility that these ideas may prove to be correct. If they are correct, the Council's program of using monetary policy to achieve a politically determined interest rate with the expectation that this will have little effect upon total demand, which can be controlled by fiscal policy—this may prove to have very serious consequences. The present unsettled state of knowledge seems to call for a policy program the justification of which does not depend so crucially upon a particular economic theory.

The other broad issue raised relates to the effectiveness of present institutions for implementing the Employment Act. Our objective appraisal, in this respect confirming some detailed studies, represents postwar monetary and fiscal policy as erratic and sometimes destabilizing. That such is the case has not been widely recognized, presumably, because the most influential characterizations of past policy have been those developed by the policymakers, the Council and the Federal Reserve. In these characterizations, one finds both a lack of diagnosis of past error and a disposition to use measures of policy in such a way as to preclude such a diagnosis. This points to a general problem.

The policymaking agencies are in an obvious conflict-of-interest situation when they interpret past economic developments and their own past policies, choose concepts and measures of policy that affect its evaluation, and even influence the construction and release of the