In relation to stabilization policy, the interpretation that I have suggested to you for your consideration would argue that monetary policy ought to be altered immediately, and moderate increases in the money supply again resumed. Perhaps it would be appropriate to forestall a cumulative recession to have a brief period of substantial monetary growth followed by moderate growth presumably in the 2- to 4-percent-a-year range.

In relation to fiscal policy, I would not propose a sharp tightening of fiscal policy. Large discontinuous movements of policies are inappropriate in the present uncertain state of our knowledge. But I take it present budget plans imply movement to a substantially larger high employment deficit in the near future if taxes are not increased or offsetting expenditure reductions are not made elsewhere.

This would seem to me inappropriate. I would prefer to keep the fiscal position as measured by the high employment surplus where it is or move it from its deficit in a surplus direction, and in the longer run to move it back to a more normal position than the present one.

In closing, I should like to emphasize how great the gap is between the Council's picture of a situation well in hand and the disturbing picture of the state of knowledge and policy that I have drawn. The hazard seems to me to be a real one and I commend to your consideration this alternative to the Council's interpretation of where we are, and how we got there. I also suggest the desirability of basic reconsideration of our existing arrangements for achieving the objectives of the Employment Act.

(The prepared statement of Professor Culbertson follows:)

PREPARED STATEMENT OF JOHN M. CULBERTSON

The major points that I should like to explore with you today can be summarized in this way: The interpretation of the past and present use of monetary and fiscal policies given in the Annual Report of the Council of Economic Advisers does not seem to be a realistic one. When the record is straightforwardly appraised in terms of the measures of policy that perhaps would command widest assent among economists, these conclusions emerge. (1) Fiscal and monetary policies during the postwar period have been highly erratic, presumably a major source of economic instability in this country. (2) During this period, fiscal policy does not seem to have been a major determinant of the behavior of total demand. (3) Achievement of the objectives of the Employment Act of 1946 seems to require establishment of more effective procedures for controlling monetary, fiscal, and debt management policies. (4) The Annual Report of the Council of Economic Advisers in its present form has some negative effects upon knowledge regarding stabilization policy since existing institutions require that the Report be a defense of and rationalization of the Administration's past and planned policies rather than an objective statement, and thus it tends to propagate what might be termed an official economic mythology. (5) Finally, a more specific point, monetary policy in early 1967 continues to be economically contractive. Unless this policy is changed very soon, it is not unreasonable to expect that it may cause a recession by summer. Preventing such a recession while avoiding renewal of excessively rapid growth of total demand is the immediate problem facing stabilization policy.

I should like first briefly to review international factors affecting stabilization policy. Evaluation of United States policy in relation to its responsibilities to the international economic system is made difficult by uncertainty as to just how this system is supposed to work. To determine whether we are following the rules of the game, we should have to know just what the game is. If the international monetary game were still the gold-exchange system, it would appear that the U. S balance of payments deficit is too small rather than too large. The main problem, then, would be that France is violating the rules