has eased and is working to combat recession along with a fiscal policy that is characterized as properly stimulative. However, the Council estimates that in response to these policies demands will strengthen by midyear, so that "a shift toward restraint in fiscal policy is appropriate at that time." A proposal for a tax increase is offered in anticipation of this need.

The picture that emerges is one of very closely controlled monetary and fiscal policies governed by a highly developed ability to predict just what will be needed and adjust policy actions accordingly. A part of this picture presumably is the Council's estimate that further reduction in interest rates is now appropriate, which is made a major preference point in discussion of both domestic and international economic affairs. Perhaps it would be fair to conclude from this representation of the state of aiffairs that in the twenty years of operation of the Employment Act we have learned to run a very tightly controlled stabilization policy, one offering assurance against serious errors and cumulating economic difficulties.

I think it very important for this Committee, and for the public, to be aware that this is not the only interpretation that can be made of the past record and present state of policy measures and of the economy. Indeed, so far as I can see, a straightforward application of the concepts that perhaps would command widest assent among economists leads to an interpretation that differs radically from this one. I should like to outline a version of this less favorable interpretation.

The principal issue between the competing interpretations is how monetary and fiscal policy are to be measured and thus what explanatory role is to be assigned to them in connection with past developments. With reference to measuring fiscal policy—determining when and by how much it has become more restrictive or expansive—perhaps wide agreement among economists exists in favor of the concept of the high-employment government surplus as the best single measure. This concept was developed and used by the Council in earlier years, but its recent Reports have not used it.

With reference to monetary policy, I take it that the measure commanding the widest support among economists is the rate of growth of the money supply, defined as demand deposits and currency. Use of this concept is not limited to those economists who are proponents of or enthusiasts for monetary policy. Rather, it is the basis of most current theoretical and empirical work, including econometric models. There are solid theoretical reasons why such models specify supply and demand equations for money, the latter taken to be partially determined by policy. To take interest rates or the total amount of credit as the policy-determined variable, as is implicitly done in the Council Report, involves a theoretical anomaly.

If one interprets the past role of monetary and fiscal policies on the basis of these measures, what story emerges? Straightforward reading of a chart on fiscal policy, thus measured, indicates that it was not closely responsive to the needs of economic stabilization. It also suggests that fiscal policy must not have been a major determinant of total demand, for if it were matters would have gone much worse than they did in recent years.

We note that the fiscal position moved sharply in a restrictive direction in 1959, with the high-employment surplus rising close to $15 billion. This change in fiscal policy seems to have contributed to causing the recession of 1960. But we also note that the recovery from that recession occurred despite the fact that fiscal policy remained unusually restrictive. Fiscal policy moved to a less restrictive position in 1962, which will be recalled as the year when the economy developed an increasingly slack position. Despite the condition of the economy, fiscal policy moved back to an unusually restrictive position in 1963. But despite *this* the economy in early 1963 began the upsurge in total demand that finally brought back full employment. This upsurge is difficult to attribute to the tax cut, which did not occur until a year later and which in any case moved the fiscal position to an average rather than extraordinarily expansive role.