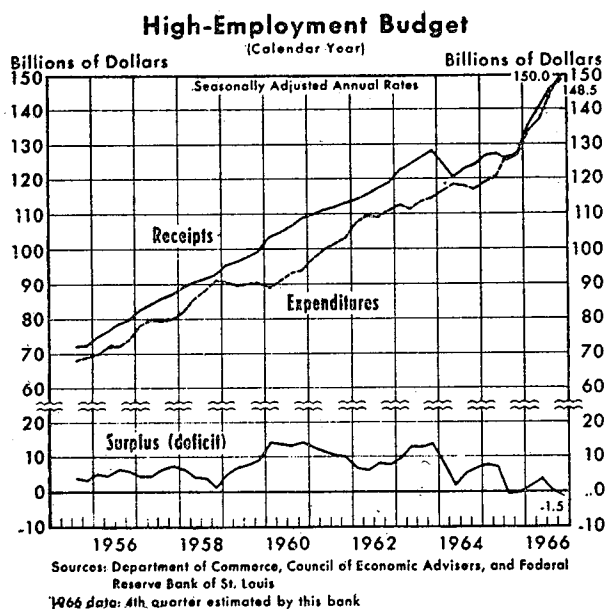




Fiscal policy finally did become unusually expansive, after mid-1965, by which time full employment had been substantially achieved and such a policy was no longer appropriate. In late 1966 and early 1967, fiscal policy moved to an even more expansive position—a position by a wide margin the most expansive within the past decade, the period for which these data are available. Yet during the reign of the most expansive fiscal policy of modern experience, the economy within the past year has been transformed from extreme expansion to the brink of recession.

With reference to its suitability, we observe that fiscal policy was generally restrictive in 1960–63, when expansive policies generally were needed, and thereafter became increasingly expansive the less appropriate this became. We note also that the timing of changes in fiscal policy bore little relation to the changing needs of the economy. With reference to its potency, we note that vigorous growth in total demand began in 1963 under an unusually restrictive fiscal policy (although accelerated depreciation and investment credit provisions make this measure of fiscal policy less than adequate during this period). During the past year, the most expansive fiscal policy in recent times did not prevent the choking off of a strong economic expansion. On the face of things, it appears that we were saved from fiscal policy's inappropriateness only by its ineffectiveness.

What of the past role of monetary policy as measured by the rate of growth of the money supply? We note that monetary policy can be credited with contributing to the recession of 1959–60, an unusual decline in the money supply having begun in mid-1959. Changes in money growth also can be assigned an explanatory role with reference to the recovery beginning in 1960 and the weakening of the economy during 1962, when the money supply about leveled off during most of the year. The abrupt beginning of money growth at a rate considerably above the earlier average rate in the fall of 1962 may explain the beginning of accelerated growth of total demand in early 1963. We note further that a sharp acceleration of money growth occurred in mid-1965 at a time, again, when the economy was near full employment and a tapering off of growth of total demand would have been appropriate. Money growth from the spring of 1965 through the spring of 1966 was by far the most rapid during any period of prosperity in recent times. If, as economic theory has it, this measures a causal force, evidently monetary policy must have been a major cause of the accelerated and excessive growth of total demand during this period.

Finally, with characteristic abruptness, the rate of growth of the money supply changed again in the spring of 1966, now becoming sharply restrictive by in-