In relation to monetary policy, the Federal Reserve has always resisted the idea of objective measures of policy in terms of which it can be interpreted and criticized. The thought has occurred to many Federal Reserve critics that one consideration leading the System to profess the immeasurability of monetary policy is that this implies its noncriticisability. In other words, doubling back in our argument, if we do not have effectively disciplined policy in part because we do not have agreed objective measures of policy, it seems true that we do not have objective measures of policy in part because discussion is dominated by the makers of policy, who consistently resist the establishment of standards that would constrain their actions and subject them to criticism.

Bringing policy under control is, in a sense, simpler in the case of monetary policy than in the case of fiscal policy. The Federal Reserve has the powers necessary to prevent erratic behavior of the money supply and cause it to behave consistently in accord with some defined operating rule. However, there does not seen to be any reason to expect the Federal Reserve System as presently constituted to do this in the future any more than it has in the past.

Fiscal policy involves an additional set of problems. Given the erratic and somewhat unpredicitable behavior of government expenditures, especially during an era of large and varying defense expenditures, and secular growth of receipts from given tax rates, a controlled fiscal position could be attained only if tax rates could be changed frequently in response to fiscal targets. For close control, the system would require some quickly adjustable element in receipts or expenditures.

Obviously, the present machinery cannot pretend to come anywhere near doing such things. Thus, until there is created a machinery to control government receipts and expenditures much more closely than is now possible, an erratic and sometimes destabilizing fiscal policy must be expected to continue to exist. Considering the important allocative implications and the difficult political implications of continual changes in tax and expenditure programs, such controllability in the fiscal system will not be at all easy to bring about, nor without its real costs. Given this, to discover that after all the effects of government deficits and surpluses are substantially offset by the government borrowing operations associated with them so that fiscal policy does not have much effect upon total demand—this might be more of a blessing than a curse.

In this interpretation, two decades of experience under the Employment Act leave us in a true situation much less favorable than our apparent situation. Our true situation seems to be one of some fragile successes, rather parallel to that of the 1920's. Again, we have a tolerable past record, hold to a partially mythological interpretation of that brought this about, and face a resultingly uncertain future. If this Committee could make any contribution to propagating objective information on the nature and effects of monetary and fiscal policy and bringing them under effective control, this would be an important service to the nation.

Chairman PROXMIRE. We thank both of you gentlemen very much for a most enlightening and critical analysis of our policies. I take it, Professor Culbertson, that you are contending that perhaps in the coming year—and this would seem to dovetail with what Professor Tobin has told us—more or less restrictive fiscal policies with a tax increase and with a monetary policy that doesn't expand the money supply could drive interest rates down, because we will move into a period of relative economic slack, and because the Council has settled for a 4-percent unemployment level, no great growth, a retarding in our rate of growth, dropping from 5½ percent in real terms to 4 percent, that we may get lower interest rates anyway, but we will be paying the price of higher unemployment than we should have and lesser growth than we ought to have. Is this your conclusion?

Mr. CULBERTSON. Well, Senator, my interpretation is that the interest rate depends very heavily upon economic conditions.

Chairman PROXMIRE. That is exactly right. That is what I am trying to say, that it depends on economic conditions and economic con-