omy in the second quarter of 1966 decelerated just when some of these basic decisions might well have been reviewed. It is understandable that the Secretary of the Treasury would use the phrase "Monday-morning quarterbacking" to describe some of the criticisms of fiscal policy last year.

Even so we must, if we are to make progress, review the lessons of experience. And one lesson we have been reminded of once again is the extent to which public policies themselves are often the source of the very instability for which they are presumed to be the solution. And this has particular implications for the strategy of policy as we look down the 1967 road.

Integrating Monetary and Fiscal Policy

Another basic point that we need to see more sharply has to do with the nature of this "mix" problem in the integrated use of monetary and fiscal policy. Too often, discussion of this matter seems to imply that these are two quite separate and self-contained instruments of policy. Like the dermatologist who can do a job with his electric needle or with his knife, so the managers of policy can make an adjustment by turning the knob of fiscal policy or the knob of monetary policy. Or they can have a neutral effect on the level of economic activity by turning one a little in one direction and the other at little the opposite way. Now, what do we mean by easing or tightening monetary policy? Often we seem to calibrate this by the incidence of unsatisfied borrowers, or simply by the level of interest rates. At this point, however, we confront an interesting fact. The ongoing ratio of the money supply to GNP displays surprisingly little variation. If we look at the last decade, except for the recession year of 1958 this ratio ranges within the comparatively narrow limits of 0.436 in 1964 and 0.420 in 1960. And the average ratio of 0.431 for the first 5 years is virtually identical with the 0.435 for the latter half of the decade. The data, therefore, strongly suggest that the economy will not stray far from the course being traced out by monetary expansion. There can, however, be a fairly wide range of budget positions consistent with a given level of GNP. Indeed, even with an expansion budget in an overheated economy, a reduced rate of monetary expansion can cool off the boom. This is almost precisely a description of events during the latter half of last year. If the ease or tightness of monetary policy is to have an ambiguous calibration, therefore, it must be in terms of the rate of growth of the money supply.

(Table 2 follows:)