Operational Implications for Policy

What are the implications of these general comments for policy in 1967? The most urgent requirement is that we remove some of the economic uncertainty and instability that emanate from the public sector itself. Here we are on the firm ground of section 2 of the Employment Act of 1946. This section really calls for decisions about fiscal, monetary, and other Government economic policies to be consistent with the characteristics of an economy operating at reasonably full employment.

Obviously this does not mean that monetary policy can be automated. At the same time we should be able to sail this channel within narrower tolerances than recently, when monetary expansion varied from a 10.9 percent annual rate in the fourth quarter of 1965 to a negligible 1.2 percent rate a year later.

The major problems here, however, are to be found in budget policy. Suppose that we use the so-called high-employment budget surplus—the difference between expenditures and the receipts the tax structure would have produced at reasonably full employment—to calibrate the operation of fiscal policy. During the last decade fiscal policy was, by my count, being operated perversely in 4½ years of that 10-year span. From late 1956 to the end of 1960, the high-employment surplus rose sharply to the $14 billion zone, this during a period of sustained unemployment. From late 1962 to the end of 1963 it again moved up to the $14 billion zone even though business conditions were deteriorating—the unemployment rate was higher at the end of 1963 than in mid-1962. And the sharp decline in this high-employment surplus in the second half of 1965 was clearly inappropriate for an economy reentering the zone of full employment. In only 5½ of the 10 years could the operation of fiscal policy be said to be reasonably consistent with the needs of the economy. This is a score of 55, which, in academe, is pretty close to a failing grade. Moreover, the fact that uncertainties about the budget constitute one of the greatest imponderables in appraising business and economic prospects exacerbates further this perverse influence for the orderly course of the economy.

What can or should be done?

First, the whole budget information system needs to be overhauled. No present concept of the budget deficit measures the draft of the Federal fiscal operations on the money and capital markets. The budget on a national income and product basis is given favorable billing in the budget message, but estimates of purchases of goods and services for national defense on this basis are not to be found in the 478 pages of this document. The President is to be commended for recommending a much-needed, thorough, high-level conceptual review of these matters.

Second, the paucity of information about where the budget itself is going is almost a disgrace in our economic information system. The Federal Establishment must begin to provide more frequent estimates of budget prospects for the year or so ahead. The Federal Government during the year calls regularly upon businesses to estimate their future capital expenditures, their expected sales, and their planned inventories. It asks households about their income