

My assignment is to focus on the monetary situation, and I will do so in the context of the total policy mix as well as the prevailing economic trend. Certainly we know more about monetary fiscal policies than we did in the great depression, when poor policies certainly contributed to the depth and duration of that catastrophe.

We know how to prevent extremes, either depression on the one hand or hyperinflation on the other. But political tolerance has narrowed significantly since those days, and in my opinion there is very little evidence that we have the increased knowledge and the political will to finely tune the economy, particularly once full employment of resources has been achieved.

In my opinion the policies from 1961 to 1965 were unprecedentedly favorable, but from mid-1965 up to the present, I think they have been consistently destabilizing. The hallmark of the new economics as I understand it is that Government officials can prescribe the proper public policies.

When the margin for error is small, once we have achieved full employment, in my opinion, these acts are likely to be destabilizing. The reasons for the failure are not the marketplace, but improper analysis and execution.

It is tempting to characterize the private economy as unstable. According to this view policymakers must be constantly alert, ready to change, to counterbalance the destabilizing forces inherent in the economy. In my opinion the opposite is true, that we really have a very stable economy, and if we were not constantly tinkering and upsetting, we would not have as much instability as is actually observed.

Now this view is not held because I think monetary fiscal policies are unimportant. In fact, exactly the opposite. I think their effects are extremely pervasive, and sharp changes almost inevitably destabilize.

Certainly economic forecasting techniques have improved over what they were several years back, but they have not improved sufficiently to serve the needs of an activist economic policymaking group.

In addition to occasional lapses in political will, there of course are several lags that inevitably bring difficulty. There is what I would call the recognition lag. For example, in the fall of 1965, the administration clearly did not recognize the inflationary pressures that were developing. They pointed primarily to agricultural prices. There is the execution lag. It took about 1½ years to bring about the 1964 tax cut. And finally, the impact lag, and of course the private sector is now suffering from the lag of tight monetary policy of 1966.

Furthermore, we can't agree—when I say we, I mean professional economists, much less laymen—can't agree on how you should measure monetary fiscal policies. If you were to ask a group of monetary experts how they would measure a change in monetary policy, I would submit that you would find at least the following answers:

Changes in bank credit, changes in free reserves, changes in interest rate, changes in total bank reserves, changes in the money supply narrowly defined, changes in the money supply broadly defined, and fiscal policy fares no better.

We were told for many years that fiscal impact should be measured by changes in the administrative budget. Some of us thought that