the cash budget was the proper measure. The new economics taught us that we should forget all of these and concentrate on the full-employment budget. But now we are told by the Council of Economic Advisers that we should measure fiscal impact by the change in the national income budget.

Unfortunately these measures do not all yield the same answer. Even if we were agreed on how the change should be measured, we still would not know how much change is desired to bring about a given impact on the economy.

Let's look at the 1960–65 pattern and see why it was beneficial.

The policies were essentially beneficial because we had a lot of unemployment of labor and capital. Stimulatory policies were clearly needed. There was room for error. Additional stimulus was unlikely to bring inflation. It was only going to hasten the employment of resources.

Furthermore, monetary policy during this period was quite stable at about 3 percent growth in the money supply, which as you know is my preference for the measure, because I think we can demonstrate a relation to total spending.

The major exception occurred, I believe, in 1962 when I testified at that time before this committee; the money supply had declined for about 9 months. The economy shortly thereafter began to stall out, and there was a fear of recession, but the money supply turned back up, followed shortly by a rise in the economy.

One other, incidentally, major postulate of the new economics which I think is incorrect, is that we can substitute fiscal policy largely for monetary policy; that really monetary policy is of secondary interest. I think it is important to recognize that the pattern of economic trends over the last several years can be much better explained by what happened to money than what happened to fiscal policy.

We did have an upturn in 1963, following a rise in the money supply—we had a leveling in the economy prior to then. This upturn started way in advance of the tax cut; there was no noticeable acceleration in the economy after the tax cut. And again in 1966, when we had fiscal stimulus, and tight money, the economy in my opinion is beginning to stall out again.

Now let's look at the period mid-1965 up to now.

One could have hoped that as we approached full employment of resources that there would be less stimulus coming from a flexible monetary fiscal policy presumably attuned to the needs of the economy. But alas, in fact we received more stimulus. The budget shifted into sizable deficit and monetary policy became much more expansive, as measured by the money supply, total bank credit, total bank reserves.

From April 1965 to April 1966, for example, the money supply rose 6 percent, twice as much as the annual rate provided in the preceding years. In fact, in the month of December 1965, when the administration loudly opposed the rise in the discount rate, we actually had the largest 1-month increase in the money supply of any month in the preceding 19 years. It went up 1 full percent. That is at a 12-percent annual rate. Certainly, this added to the fuel of inflation, and destabilized the economy. I think it is important to ask why did we get more expensive policies at that point in time.