It is clear we have come a long way in our understanding and execution of both monetary and fiscal policy since the 1930's when poorly conceived and ill-timed policies contributed greatly to both the timing, magnitude and duration of the Great Depression. We now have the knowledge and political will to prevent malfunctioning of the economy at either the extreme of depression or hyper-inflation. But public and political tolerance for economic malperformance has narrowed since the decade of the 1930's. There is, however, little evidence to indicate that our knowledge and political will have improved sufficiently to formulate and execute the kinds of "flexible" monetary-fiscal policies that will achieve and maintain the generally accepted domestic goals of stable growth at full employment with stable prices, to say nothing of achieving our international objective of eliminating the deficit in the balance of payments.

II. INHERENT LIMITATIONS OF ACTIVIST ECONOMIC POLICIES

The hallmark of the new economics is that alert Government officials can consistently prescribe the proper public policies for maintaining economic stability. Despite the obvious political attraction of such a posture, there is little evidence that it can be successful. In fact, once the economy has achieved full employment of resources, thereby reducing the margin for error, an activist economic policy is very likely to be destabilizing.

There are many reasons for the shortcomings in economic policies and most are not due to imperfections in the marketplace but rather to imperfections in analysis and execution. There is a great temptation to characterize the private economy as a very unstable system constantly threatening to shift either into recession or depression on the one hand or into inflation on the other. According to this view, policymakers must be constantly alert and flexible, ready to fight either extreme by providing just the right amount of stimulus or restraint. A contrary view, which I believe is more nearly correct, is that the economy tends to be quite stable and frequent alteration in the degree of stimulus or restraint is more likely to destabilize the economy than achieve the avowed goal. The past one and one-half years yields but another illustration of the hazards of frequent change in policies. This view is held not because of a belief that monetary-fiscal tools are impotent and therefore inconsequential, but rather the reverse. Monetary-fiscal changes have pervasive economic effects and frequent alterations are often so illtimed that destabilization results. In addition to the obvious danger of insufficient political will, the lags in economic policymaking and execution almost assure us that serious mistakes will arise. The art of economic forecasting has improved but remains inadequate for the needs of activist policymakers.

There is first the recognition lag. This lag cost many months of time in late 1965 and early 1966 when the Administration refused to believe serious inflationary pressures were developing. There is the execution lag following recognition of the problem. Although for monetary policy this lag may be brief, it can be quite long for fiscal policy as witness the fact that it took over one and one-half years to pass the 1964 tax cut. Finally, there is the impact lag which for both fiscal and monetary policy may be one to two quarters or longer. The private sector of the economy is now being depressed by the impact lag of the very tight monetary policy of 1966.

There are other complications which make success difficult. Monetary-fiscal authorities are not agreed as to the proper measure of policy changes and even if they were, it is difficult to gauge how much change is necessary to bring about the desired change in the economy. For example, monetary policy measurements proposed by various leading authorities include such diverse series as the change in bank credit, change in free reserves, change in interest rates, change in total reserves, and change in the money supply both broadly and narrowly defined. Fiscal policy measurements fare no better. For many years we were assured by Congressional leaders and others that the fiscal impact should be measured by the Administrative budget. The new economics taught us that only the full employment budget mattered. Some of us thought that the cash budget was the best measure, but recently the Council of Economic Advisers insisted that the national income budget is the proper budget for measuring fiscal impact. Unfortunately, the above proposed measures of monetary policy do not all yield the same answers and neither do fiscal measures. The basic point of the above remarks is that 1) we know much more about monetary-fiscal policies than we did during the Great Depression, but 2) our ignorance of detail concerning monetary-fiscal impacts is still so large that an attempt to sharply vary policies in order to