

As to fiscal and monetary policy, I take it that the overall objective of both is to keep total spending, public and private, in balance with the output of goods and services. Monetary policy can limit total spending but it cannot limit Government spending, which comprises a sizable part of the total. Fiscal policy can limit Government spending, but its effects on private spending may be largely frustrated unless it is backstopped by appropriate monetary policy.

I think, therefore, that under most economic conditions fiscal and monetary actions are supplementary, not alternative instruments, and should be used together as parts of a coordinated economic policy.

At this time when national economic policy clearly is oriented toward the fullest possible production of goods and services, it is particularly important to have sensible and effective fiscal and monetary policy. The substantial inflation we are now experiencing, with all its consequences domestically and on our external balance of payments, can be blamed in large measure on the shortcomings of fiscal policy and the indecisive monetary policy that has resulted.

This may not be the right forum for comments on public policy, but I am sure we are all agreed that the inflation must be halted. I think this can be done with the least economic disturbance if the rise in Government expenditures is tempered along with the rise in private expenditures, and this means the coordination of fiscal and monetary policy to achieve a common objective.

Chairman PROXMIRE. Thank you very much, Mr. Hart.

I think this is the right forum for comment on public policy. I cannot think of a better one. That is why we asked you here.

Our final witness this morning is Mr. Noyes.

STATEMENT OF GUY E. NOYES, SENIOR VICE PRESIDENT AND ECONOMIST, MORGAN GUARANTY TRUST CO., NEW YORK, N.Y.

Mr. NOYES. Mr. Chairman, I could condense the oral presentation of my statement almost to the vanishing point, I think, because the suggestion that I have—to the extent that I have one—seems to me to be very closely in line with the sort of procedure you explained in your opening statement as emerging from the hearings yesterday.

I might also say before I start, that my personal views are closely in accord with those presented by Mr. Gaines when it comes to the proper framework for analysis of monetary influences. I have focused in my statement on the relationship of changes in monetary policy to changes in the demand deposit component of the money supply, because I thought that would be responsive to the committee's immediate interests.

As I understand it, my particular assignment is to say a few words about the response of financial institutions, and particularly commercial banks, to changes in monetary policy, and to relate this, to the extent that it is possible, to the degree of precision with which it is possible for the monetary authorities to regulate the rate of growth of the money stock.

Before I turn to these specifics, however, it may be useful if I identify myself in terms of broad philosophical—or one might almost say ecclesiastical—affiliation. My early training in economics was not in what has come to be known as the Chicago school, but it was in a school