

nor cheaply accomplished. Nobody suggesting specific policy proposals today can responsibly ignore these imperfections.

Fiscal Policy Is not Insignificant

Also ignored, neglected, or downplayed by faithful adherents to the money supply theory is the extremely significant role the government's expenditures and its deficit may play in determining the course of economic and financial developments. The expansion in expenditures caused by the war in Viet Nam has had major impacts on our economy in recent years. Wars can cause major changes in income irrespective of how they are financed. But the ease and efficiency with which resources are shifted to the war effort is not independent of tax policy and how the war debt is financed.

To prove that a money creation rule could take the place of fiscal and debt management policy, one must show that by maintaining a constant growth in the money supply changes in other policies would be reduced to insignificance. But most economists agree that the opposite is true. Tax and debt policy can create a more efficient system of transferring resources. The level of demand is not dependent entirely on the money supply and independent of the method of financing. Financing through borrowing rather than through taxing may cause significant structural changes. Most experience indicates that the level of production and the amount of resources available for the war can be influenced by fiscal and debt policy. Who pays for the war and how income is redistributed also would be different under a system which used money supply as the key policy variable.