

explanation for the extraordinary \$63.2 billion, or 9.7-percent increase in GNP between the first quarter of 1965 and the first quarter of 1966, why not start with this zooming money supply? If one seeks an explanation of the slowing pace of expansion of GNP—indeed, of the virtual leveling out of real GNP—from the last quarter of 1966 through the first half of 1967, why not look first to the screeching halt on monetary growth beginning in April 1966 through January 1967, when the money stock declined by 0.2 percent? And if we are now in for an excessive surge of aggregate demand and further inflationary developments, as we may well be, why not assign a substantial share of the responsibility for these unhappy prospects to the 7.3-percent increase in the money stock between January 1967 and January 1968—or the incredible 9.3-percent growth between January and July 1967?

Developments of the past year in monetary policy should confirm this committee in its preference for a rule of stable growth in the money stock. May I urge consideration for a parallel approach to fiscal policy?

A stable fiscal policy

That approach, I submit, calls for initiating the effort to get Federal Government activities and programs on a stable, long-term basis. Here, too, the longrun goals of these activities should be clearly delineated and rigorously appraised for their realism. Properly defined, the long-term trend requirements of these programs can be estimated and it is on the basis of such amounts, never on the basis of their first or current-year costs, that these programs should be authorized, rejected, or modified.

Given these long-term trends in expenditures, given the trends in the major components of national income, and given the tax structure, trends in revenues can be estimated. If the trend values of Federal expenditure programs, realistically estimated, accepted, and approved by the people of the United States and their congressional representatives, should be estimated as exceeding the trend amounts of revenues, then taxes should be increased deliberately, carefully, with due regard to fairness, simplicity, and in line with the economy's requirements and preferences for encouraging private effort and capital accumulation. If the trend growth in expenditures is estimated as falling below that of revenues, regular reductions in tax rates should be scheduled and implemented without interruption for meeting short-term deviations from trend.

Of course, conditions change and so, too, would the trend values of expenditures and revenues. When such changes rather than temporary deviations from trend "can be established," corresponding changes in expenditures and/or revenue programs would be called for. This is, in other words, no call for a straitjacket on Federal finance.

Neither is it a policy calling for rigid, annual budget balancing. Indeed, with such a policy, there would be no occasion for concern with whether the budget is balanced in any particular year. On the contrary, a balance in the budget in any year would be considered an uninteresting and inconsequential coincidence. Finally, to repeat, temporary deviations from trend in either expenditures or revenues