the banking system can be an engine of inflation when it is speeded up through large and growing deficit borrowing by the Government in a fully employed economy. It is at this point that continuous deficit spending "engages the clutch" of the wage-price spiral.

CURBING INFLATION

It is far easier to permit inflation to develop than to curb it—not because the anti-inflationary weapons are lacking, but because of their political unpopularity. Excessively easy monetary and credit policies and Federal deficit spending in a high-employment economy are the direct causes of demand-pull inflation and the indirect causes of the cost-push variety. The cures are the reverse: tightening credit and shrinking the deficit. The 1951 tax increase helped stem the Korean war inflation. The Federal Reserve's tight credit policy in 1966 slowed the economy's price rise appreciably, despite a growing Federal deficit. But the inflation resumed after monetary policy once again turned expansionary in 1967 and the Federal deficit deepened. Even when the upward wage-price spiral is set in motion monetary and fiscal restraints can be effective.

Even when demand-pull pressures predominate, if fiscal policy does not support monetary policy, the Federal Reserve cannot do the necessary job alone. If the Treasury is running a deficit, the "Fed" is hampered by its commitment to "maintain an even keel" (not to tighten credit) during Treasury borrowing operations. Furthermore, if the "Fed" is forced to act alone to stem inflation by applying the monetary control brakes—as in 1966—it causes the economy to swerve, like a speeding automobile whose brakes work unevenly. In that instance the unduly severe impact of tight money on the construction industry brought a precipitate decline in homebuilding activity.

It is not sufficiently recognized that traditional monetary-fiscal policies can be effective in curbing cost-push inflation by dissipating the underlying demand-pull pressures. The Council of Economic Advisers' report (pp. 119-128) tacitly admits this fact in its discussion of price and wage policy; but there is no explicit treatment of this question which is of more than theoretical importance. The Council's apparent underestimation of this point affects the price-stabilization policy prescriptions in its report.

WAGE-PRICE CONTROLS

The seriousness of this oversight is apparent in the reiteration of the Council's wage-price guideposts which were abandoned in 1966 precisely because a wage-price spiral had set in. Wage-price controls either of a direct or indirect kind are undesirable—both because they are ineffective and, more importantly, because they distract attention from the need to follow the proper anti-inflationary policy—adequate monetary and fiscal restraints applied in unison. Pressure for such controls builds up because of the failure to use a proper monetary-fiscal policy "mix".

The nub of the question of price stability is the often cited "trade-off" between price increases and unemployment. Studies of this ques-