

stability. The main instruments for accomplishing these objectives will be fiscal, monetary, and debt management policies. The Joint Economic Committee has, of course, taken the lead in teaching the country about the instruments of economic stabilization, starting with the notable hearings conducted by the present chairman and by Senator Douglas almost 20 years ago. The country has now had a good deal of experience with the use of these instruments, and it is worthwhile to see what has been learned from that experience. We do not propose to review this history in detail but only to summarize what we think are its lessons.

The evidence strongly supports the view that fiscal and monetary policies taken together have a powerful influence on the rate of growth of total spending and on employment and prices. This influence has not always been exercised in the right direction and amount or at the right time to stabilize the economy. But the historical relationships between changes in fiscal and monetary conditions and changes in economic conditions, although by no means precise, are consistent with a priori expectations of the power of these policy instruments.

It is hard to separate and measure the distinct effects of fiscal actions and monetary actions. Nevertheless, we believe the most reasonable conclusion is that both are important and it would be imprudent to disregard the overall effects of either.

There is much disagreement about the channels through which monetary policy affects the economy and consequently about the best measures of the direction and degree of monetary action. Specifically, there is disagreement about whether monetary restraint or stimulus is exerted or measured by changes in the supply of money, which can be measured in various ways, by changes in the supply of bank credit or of total credit, or by changes in the general level of interest rates or in the relationships among interest rates, or in still other variables that could be mentioned. We are inclined to the position that the behavior of the supply of money is very important. However, we do not regard this question as settled and have no desire to be dogmatic about it.

We believe that fiscal policy would have been significantly more stabilizing than it was in the past 10 years if it had followed a steadier course, with smaller variations in the size of the surplus that would have been yielded at high employment. The rise in the high employment surplus between 1958 and 1960 and the rise in the deficit between 1965 and 1967 were excessive and contributed to instability. What now seem to have been the chief successes of fiscal policy from the standpoint of stability—the tax reduction of 1964 and the tax increase of 1968—were both corrections of previous departures from a steady path.

The parallel statement about monetary policy is less certain. Because of the existing disagreement about the best measure of the restrictiveness or ease of monetary policy, one cannot be confident of the effects that would have been yielded by a steadier policy in the past or about how to define a steadier policy for the future. However, if one accepts our opinion about the great importance of the supply of money, it is probably true that a steadier rate of growth of the supply of money would have contributed to economic stability.