

Circumstances are possible when departures from the steady path for fiscal or monetary policy or both would be desirable. There may be fluctuations in the private economy too strong to be constrained within reasonable limits without extraordinary fiscal or monetary action. Moreover, once fiscal or monetary policy have strayed far from the reasonably steady path, measures of adjustment are needed to get back to it. Our point is that frequent adjustments of policy to correct dimly foreseen future departures from the desired path of the economy are on balance likely to be more unstabilizing than stabilizing.

To achieve a stabilizing fiscal policy, or at least avoid a destabilizing one, we need to learn how to separate decisions about the overall position of the budget from decisions about particular expenditure programs and questions of tax structure. On many occasions—notably, the long debate over the 1964 tax cut and the long debate over the 1968 tax increase—timely action was prevented because these issues became entangled.

We also believe that the conduct of anti-inflationary monetary policy is easier, and can be counted on more reliably, if the Federal Government is not a continuous large borrower during periods when restraint is needed. This obstacle to sound monetary policy is not insuperable. Nevertheless, it would be desirable to try to run a surplus in the budget at times of inflationary pressure and also to arrange the debt so that the proportion of it having to be refinanced every quarter or year is not so large as at present.

The fiscal and monetary requirements of domestic stabilization are often consistent with the requirements of balance-of-payments equilibrium. This is true, at least in direction, today. But often the domestic and international goals are not inconsistent and we need to find better ways to reconcile them.

Despite limitations of knowledge and conflicts of objectives, fiscal and monetary policy are capable of maintaining a high degree of economic stability—a higher degree than in the past decade. However, no one can promise precise adherence to the path of steady growth.

OUTLOOK AND POLICY FOR 1969

As we encounter the requirements of economic policy at the beginning of 1969, the basic fact we find is that the country has run out of the easy way of doing things.

1. Continuing rapid inflation has generated a strong inflationary psychology. This makes it highly dangerous to allow the inflation to continue. At the same time it makes the task of slowing down the inflation difficult, because it increases the risk of adverse effects on real output.

2. The credibility of the Government's repeatedly stated policy of stopping inflation has been weakened. New announcements of policy, however sincere, will not turn around the existing inflationary psychology. At least at first a new policy will have to work against, not with, the prevailing psychology.

3. The potentialities of slowing down inflation by appealing to the good behavior of business and labor have been weakened by overuse and misuse.