

tary policy is less clear. The exact mechanisms through which monetary policy works and the exact impact and timing are said to be unclear. The report concludes that it is likely to be unwise to attempt to use monetary policy with the hope of very closely controlling aggregate demand, that monetary policy should be flexible and not tied to any specific rule. We agree with these comments about monetary policy, but we think many of the arguments the council poses against attempts to use monetary policy to "fine-tune" the economy apply to fiscal policy as well. Just as it is unclear how different definitions of money supply affect spending decisions, there is at least some uncertainty about the effects on spending by the private sector of Federal spending as opposed to Federal lending, of Federal spending as opposed to Federal taxes, or direct Federal expenditures as opposed to transfer of payments, or of corporate income taxes as opposed to personal income taxes. The report itself attests to the difficulties of making very precise predictions of the savings behavior of individuals and the determinants of business investment and inventory accumulation. The report reflects the uncertainty in most minds about the exact impact of fiscal or monetary policy on interest rates and thus on savings flows to mortgage lending institutions and thereby to expenditures on construction.

We are not suggesting that we do not know enough about how monetary and fiscal policy affect the economy to enable us to use these tools to help us meet our economic objectives. However, we do not know enough about the precise effects of either monetary or fiscal policy to try to use them to contain the economy within very precise limits.

ECONOMIC POLICY IN 1969 AND 1970

This difficulty in using either of these policies in very exact ways has substantial implications for economic policy in 1969 and 1970. The major problem facing the United States in the years immediately ahead is to eliminate the inflationary expectations which have been built up over the past 3½ years. The elimination of inflationary expectations requires that we expose our economy to very little risk of excessive demands—that we do not pursue fiscal and monetary policies which might lead to an acceleration of prices before the middle or end of 1970. Given our inability to predict exactly how fiscal and monetary policy work, we must take a fiscal and monetary policy position such that if we are wrong and if consumers and business expenditures as well as Government expenditures move differently than we expect, the economy does not accelerate too rapidly toward the end of 1969. Such a policy necessarily exposes us to some risk that the economy will grow too slowly and that unemployment will temporarily increase. Given our unwillingness to take sufficient action to control the inflation in the past 3½ years, however, the price we may now have to pay is this exposure to the risk of a temporary rise in unemployment. To be sure, we must stand ready to minimize the effects of this risk by being prepared to take steps to expand demand should it become clear it is growing more slowly than the return to relative price stability requires. In addition serious attention should be given to making existing manpower and training programs more effective in order to minimize any temporary rise in unemployment. However, since we are