Poem.

Lack of pretense as an economist.

"Those who know history are condemned to repeat it" (Santayana) and those who know history are condemned to repeat it, too.

New economics is simply the old economics plus the computer.

Today, as in the past, the heart of an economist's work is determining the relationship between the sectors of the economy, which then hopefully can be used as the basis of projecting possible courses. The emphasis has changed from the defensive to the offensive -- from explaining why something unpleasant happened, to a more dynamic role of how similar crises can be avoided. This is a heady role, and one that on occasion, I suspect, economists are sorry they ever heard of. But our own Walter Heller is probably more responsible for this new role than any other economist living today. His insistence on the importance of the tax cut as a fiscal spur gave new prominence to the role of fiscal policy; the direction of the Fed has similarly shifted from a reactive role to a dynamic one, and our formulation is dependent on an analysis of all the facts that can be corralled. Absent this and economics is simply an intellectual exercise akin to the arguments of theologians in the Middle Ages about how many angels can be crowded on the head of a pin.

What are the facts influencing monetary policy, for it is to this I must direct my attention.
Labor utilization.

Total unemployment at 4.1%, the lowest since May, 1957.

Unemployment of married men looking for work is at 1.8%. This is the most significant of all the statistics, because this is the group of the most skilled, most reliable, and the most eager beaver component of the labor force. As the Weekly Bond Buyer reported: it is this category that signifies labor market tightness where it pains the potential employer the most.

Other indications of the high rate of labor utilization are:

Total labor force time lost: 4.3% (matched only in March, 1957).

Factory turn-over rate at a high level, indicating employers are hiring at a faster rate, firing at a slower rate, and being deserted at a faster rate than any year since 1953.

Help wanted lineage is at an all-time high.

National figures obscure: sector problems -- Negroes -- teenagers.

It is significant that Gardiner Ackley commented that further reduction
of employment may be at the expense increased
pressure on the economy.

Price:

Wholesale price index is up about 1.3%.

Processed food component, however, is up a little better than 6%, and farm products almost 10%.

Vietnam is emerging as a major commitment of material and manpower, with various price tags attached, but in the range of 6 to 7 billions as special costs.
C.P.I. up 2% from last May.

Plant expansion

Spending is similarly estimated at various levels, but generally at an increase of about 15%, which will result in approximately a 6% increase in gross industrial capacity.

Interest rates are still in the process of adjustment to new levels, following a period of acute imbalance, which emerged last year.

Star Tribune

Money supply.

Annual 1970 from 1951-1962

1.3% since Sept 1962

7% since July

12.7% Nov to Dec
Monetary policy
how make FOMC Board

Tools
- discount rate
- reserve rate
- open market
- taxes & fiscal measures
- withdrawal of reserves

Imperfect
interaction with fiscal policy
expansionary in 2nd half 1965
seasonal timing
purchase of securities
local rate situation
Economists simply don’t know as much as we would like to know about the terms of trade between price increases and employment gains. We would all like the economy to tread the narrow path of a balanced, parallel growth of demand and capacity—at a high level of capacity utilization as is consistent with reasonable price stability, and without creating imbalances that would make continuing advance unsustainable.

But the macroeconomies of a high employment economy is insufficiently known to allow us to map that path with a high degree of reliability.

Seven story
T’is the season to be wary
Of predictions slow and chary,
Assaulted with Cassandra’s gloom,
Confronted by Lyndon’s bloom,
We pick our way slowly and gingerly,
Mindful always of Patman malingeringly.

What will the budget be?
How high the rise in GNP?
How do we measure tone, color and feel?
How to weigh fears, imagined and real?
To the desk* we must turn with task impossible,
To make these decisions ultimately tossupable.

(*) The Open Market desk, in case you didn’t know.
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