

THE ROLE OF MONETARY AND FISCAL POLICY IN
THE AMERICAN ECONOMY

I. OUR ECONOMIC SYSTEM.

A. National goals.

Section 2 of the Employment Act of 1946:

". . . Federal Government to use all practicable means . . .
in a manner calculated to foster and promote free competitive
enterprise and the general welfare . . . to promote maximum
employment, production, and purchasing power."

B. Money as an instrument of economic freedom.

1. Freedom to earn, spend, borrow, save, invest.

2. Spending decisions guide the economy.

(a) Profit and loss economy.

Edsel vs. Rambler.

3. Earning and spending decisions.

(a) As individual consumers, households.

65% individual consumption.

5% housing.

(b) Voluntary collectives (Corps.)

10% plant, equipment, inventories.

(c) Government -- 20%.

C. Full use of resources.

D. Reconciling B with C.

II. FISCAL POLICY.

A. When Government activity was relatively small.

1. Government decides functions and costs.
2. Raises revenue to pay.
3. Except emergencies -- war.
4. Tariff qualification.

B. Sheer modern magnitudes.

1. Big effect inevitable.
2. Compensatory fiscal policy.
 - (a) Concern with cyclical stability.
 - (b) Aggregative approach.
 - (1) Net surplus or deficit.
 - (2) Built-in stabilizers.
 - (A) Income.
 - (B) Expense.
 - (3) Fiscal policy.
3. Problems of application:
 - (a) The budget process.
 - (1) Agencies now working on budget for fiscal 1965.
 - (2) By Sept. 1963 departmental estimates due for 1965.
 - (3) Budget Bureau review.
 - (4) President submits in January 1964.
 - (5) Budget year begins July 1, 1964.
 - (b) Projections: 18-24 months in advance.

FISCAL YEAR JULY 1, 1962 - JUNE 30, 1963
 (\$1 billion)

	Original estimate Jan. 1, 1963	Mid-year	Jan. 1, 1963	Actual
Receipts.....	93.0	85.9	85.5	86.5
Expenditures..	92.5	93.7	94.3	92.5
Surplus +	+ 0.5			
Deficit -		- 7.8	- 8.8	- 6.0

- C. Fiscal policy for growth.
 - 1. Tax levels and incentives.
 - 2. Tax structure.
 - (a) Consumption.
 - (b) Investment.

III. DEBT MANAGEMENT POLICY.

- A. Compensatory debt management.
- B. The problems of issuing long-terms.
- C. Advance refunding.

IV. MONETARY POLICY.

- A. General principles.
- B. Tools.
- C. Conflicting objectives.
 - 1. Logical consistency.
 - 2. Experience.
- D. Determination of policy.
 - 1. Relation to Government.
 - 2. Internal.
- E. Recent policy and combining objectives.

V. OTHER PUBLIC POLICIES.

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| <ul style="list-style-type: none">A. And balance of payments.<ul style="list-style-type: none">Defense.Development. | <ul style="list-style-type: none">B. And unemployment.<ul style="list-style-type: none">Skills - education.Minimum wage. |
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