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## Monetary vs. Fiscal Policy

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that he is not enamored of Mr. John Foster Dulles is the kindest possible assessment of his treatment of President Eisenhower's Secretary of State. The author strives to make it clear that he feels the U.S. Laotian policy in the 1954-1961 years, besides wasting millions, redounded to the detriment of Laos.

Why the autopsy? The reviewer has the nagging feeling that the body of Laos was laid bare to the knife not to find the cause of death, but rather to prove what Mr. Fall has said before, that the United States should not be practicing medicine in the Far East. If Mr. Fall did not make his message clear enough, Mr. Roger M. Smith, in his Epilogue, states it thus: "The United States today finds that it is unable to reverse the tragic situation which it helped to create." Mr. Smith closes the last chapter of the book with, "In countries in which the United States is doggedly persevering in its attempts to crush Communism, it is doing worse than postponing the satisfactory resolution of these problems."

F.C. GILMORE  
Captain, U.S. Navy

Friedman, Milton and Heller, Walter W.  
*Monetary vs. Fiscal Policy*. New York: Norton, 1969. 95p.

*Monetary vs. Fiscal Policy* is the result of the seventh annual Arthur K. Salomon lecture at the Graduate School of Business Administration of New York University. Essentially the "lecture" was a debate pitting the leading exponent of the "new economics," Walter Heller, against the recognized leader of the "monetary school," Milton Friedman.

Heller contends that the "new economics" has always taken monetary problems into account, and the real issue "is *not* whether money matters—we all grant that—but whether *only* money matters. . . ." His analysis leads

him to the conclusion "that we should not take refuge in rigid fiscal rules like the lock-stop tax cuts espoused by Barry Goldwater and Milton Friedman" or make the money supply the sole guide to Federal Reserve policy. The American economy should also take into account interest rates and credit availability and rely on discretionary policy rather than a rigid formula of a fixed increase in the money supply of "3, 4, or 5 percent a year." He is apparently more willing to suffer some inflation than are the representatives of the money school in return for more employment. Heller points out the weak points of the monetary school of economists, showing that they are not precise in their definition of money; they focus on the money stock exclusively, overlooking other important financial variables; they do not concern themselves enough with velocity of money; they do not show *when* money matters, for great variation is observable in the lags of monetary change and resultant alterations in employment and production; they do not explain the apparent existence of "permanent income"; they assume a fractionless economy; and, finally, they would jeopardize the U.S. international position by a rigid rule concerning the money supply. Friedman answers Heller in part by saying that he has been misinterpreted and in part by saying that the evidence supports his position. He also points out that the "new economics" during Heller's time gave only lipservice to money policy, judging by the reports. To Friedman, no fiscal policy is free of monetary policy, and there is no evidence one can accept that the expansion following the tax cut of 1964 was all due to fiscal policy. He points to the failure of the surtax to change the direction of the economy in 1968, along with other specific instances of the apparent failure of fiscal measures.

This timely book is noteworthy in that it points up the issues now

bothering the macro-economist. It is the reviewer's opinion that Heller underestimates money but is right about the need for discretionary policy; Friedman is correct in saying that the belief in fiscal policy rests on a shaky base unless money is also taken into account.

P.L. GAMBLE

Theodore Roosevelt Chair of Economics

Morgenthau, Hans J. *A New Foreign Policy for the United States*. New York: Praeger, 1969. 252p.

Hans Morgenthau's newest book is a provocative appraisal of contemporary U.S. foreign policy. Organized in nine chapters, it first sets forth "the basic issues," looks next at the extreme swings of American policy from isolationism to globalism (with its anti-Communist tone), moves on to consider the "foreign policies of communism," then to the United States and the developing world, to Vietnam, to Europe, to China, to nuclear power, and ends with "seven principles" for American foreign policy. For its length it is an ambitious book, but since it is largely analysis and appraisal, rather than history, it does sufficient justice to Mr. Morgenthau's subjects. The author's general approach is well indicated on page 3: "If one should characterize American foreign policy in a sentence, one could say that it has lived during the last decade or so on the intellectual capital accumulated in the . . . spring of 1947 . . . and that this capital has now been nearly exhausted." Those familiar with Morgenthau's writings in general will find his treatment of "the foreign policy of communism" (chapter III) one of the most challenging expansions or additions to his previously published views. His presentation on the nuclear weapons question in chapter VIII will certainly arouse controversy, including his flat statement (page 242) that "nuclear weapons in the hands of both superpowers are not instruments of

national policy; they only provide assurance that national interests can be supported with the conventional diplomatic and military methods." (This is one of his "seven principles.") His argument that "the policy of [United States] peripheral military containment on the Asian mainland ought to be gradually liquidated" is especially well developed. All in all, the book is a solid and useful example of the "new criticism" which seeks to establish guidelines which avoid both the pitfalls of "globalism" and the absurdities of "Fortress America."

F.H. HARTMANN

Alfred Thayer Mahan Chair of Maritime Strategy

Ulam, Adam B. *Expansion and Coexistence*. New York: Praeger, 1968, 775p.

The subject of this work is Soviet foreign policy during the first 50 years of the Communist government, including its forces, personalities, styles, and structures. From Brest-Litovsk to the 6-day Arab-Israeli war, the author spans the many phases of Soviet diplomatic history. Definite threads of continuity are to be found in this monumental tracing of Moscow's foreign relations. For instance, in the 1918-1921 period, in which Soviet leaders were struggling for pure survival of their state and when Germany was their main concern, peaceful coexistence in its embryonic state might he said to have been practiced. Says Professor Ulam of this period: "Inherent in this Soviet diplomacy of despair was the clear assumption that there was no nonsense about the sanctity of treaties; once power relations were changed, Soviet Russia would claim her own." With exquisite detail, the author moves through the period of 1917-1921, when the Soviet Union was desperately trying to retain the right to exist, and into 1921-1928 wherein a new type of state was created and then through the years of collective security