

essentially those of managing a prosperous economy close to full employment—problems that will be little different when we have the opportunity to make policy for full prosperity in a peacetime environment.

In an underemployed economy, fiscal and monetary policies to expand demand can be recommended with conviction and confidence. On the other side, if there were huge excesses of demand, the case for restrictive policies would be crystal clear. But when the economy is close to a smooth path of balanced growth and when the job is to stay on the path, policy-making becomes a much more complicated and delicate task.

Still it is a path. It is not a tight rope where the tiniest misstep in either direction would result in precipitous recession or disastrous runaway inflation. The economy has shown that it can maintain its balance despite substantial swings in demand above and below the ideal rate of growth. That margin for error is the salvation of a free economy and an imperfect economic policy. If it were a tight rope, we would have broken our necks long ago.

Despite past variations, right now we are close to the growth path that we would consider sustainable. The utilization rates of our labor force and our industrial capacity cannot be described as excessive or inadequate. Policy should aim to maintain a steady growth of output, essentially parallel to the growth of our productive capacity. That would require a growth of real GNP of about 4 percent over the year ahead.

To strive for this objective effectively, we shall have to make careful use of our fiscal and monetary tools—always ready to adapt them to changing circumstances and to restrain or ease in full light of developments in private demand and defense. One clear consequence is that we cannot chart our policies far in advance; we cannot maintain an unyielding position regardless of surprises we may encounter on the way.

The uncertainties in defense are one important reason why it is impossible to blueprint the policies for the year ahead. But they are not the only reason. In any period of high employment prosperity, we should want the best information we can get before making decisions on taxes, expenditure programs, and credit policies.

A number of private observers have complained about the uncertainties of Government policy. They want answers about taxes and the budget and interest rates. So do we. But we want the *right* answers and so should they. It would be reckless and irresponsible for the Government to decide whether we are going to have our foot on the brakes or the gas when we come to the next traffic light until we can see whether that light is red or green. At the moment, there are a number of bends in the road before that traffic light will become visible.