as well as tax increases. But there is so far little evidence that Congress will decide to make a major overall reduction in the carefully planned civilian program proposed by the President. Hence, a tax increase will have to provide the main contribution to restraint.

Because the strength of private demand will not burgeon all at once, fiscal policy needs to be tightened gradually and not abruptly. A tax increase will begin to lower the Federal deficit once it takes effect, with the national accounts budget approaching balance by the end of fiscal year 1968.

Broader Policy Implications

In concluding this statement, Mr. Chairman, we should like to suggest some generalization of our comments on recent and prospective economic developments and their implications for policy.

Essentially, we wish to reaffirm our view, frequently expressed, that keeping the economy reasonably close to the Employment Act's goal of maximum employment, production, and purchasing power requires the acceptance of flexibility in fiscal and monetary policy. Only if we were willing to tolerate large and prolonged deviations from this goal—either in terms of excessive slack or inflationary pressures—could we set the course of our fiscal policy and then forget it. Staying reasonably close to maximum employment, without overshooting into inflation, requires continued vigilance, and a readiness to act whenever reasonable forecasts show the need for action.

When we are close to noninflationary high employment, and trying to stay there, the requirements of policy are more demanding than when we are far from our goal and trying to reach it. If a ship is known to be miles off course, the steersman needs to turn the wheel in the right direction; but he does not have to calibrate his movement very precisely nor change his setting very often. Once he is on course and trying to stay there, his adjustments need to be both more frequent and more accurately calculated.

Members of the Council have continued to make these points in recent discussions. However, some commentators have greatly exaggerated—and then attacked—the Council's ideas about the so-called fine tuning of economic policy. They correctly stress the limitations of economic knowledge and of human judgment. We are the first to agree that our chart and compass are not all that accurate, nor is the response of the ship to a turn of the wheel so precisely known. But that is no reason to give up trying to steer. The only alternative to sensible steering is aimless drifting.

Some have caricatured our views as implying that the situation of the economy reacts instantly and precisely to the size of the net fiscal stimulus from the budget. We surely do not believe that and have never implied it. The strength of private demand varies from time to time. We would contend, however, that an important part of this variation can be reasonably forecast. For example, it is obvious that, after a period of large accumulation of inventories, or of plant and equipment, or even of consumer durable goods, private demand will sooner or later tend to be weaker than in the absence of this history.