But we also know that monetary policy should not be asked to carry too large a burden of policy adjustment. While last year's tight money contributed to the curtailment of inflationary pressures, it carried painful costs for some sectors of the economy—notably housing. Yet it did not have a timely impact on plant and equipment spending, inventory accumulation, or consumer demand. Thus, in the effort to achieve a major restraint on total demand, monetary policy created imbalances that were inequitable and could be redressed only slowly—as this year's housing recovery illustrates.

Thus, if our aspirations for the economy's performance are high, and we are not willing to pay the price of excessive reliance on monetary policy, we must be prepared to face up to the need for fiscal flexibility. We must be ready to make fiscal adjustments whenever the failure to do so can be reasonably predicted to imply a significant undershooting or overshooting of our policy goals. Even if we are unable to predict precisely when, we know that sustained overstimulation from the budget will eventually produce inflationary pressures, just as sustained overrestraint will sooner or later create excessive and unacceptable slack.

Despite the sluggishness of the past 6 months, the overwhelming consensus among serious students in the economy who take the time to study the numbers is that a strong revival of demand is on the way—one that will produce either unacceptable inflationary pressures or a return to tight money, or more probably both, by early next year at the latest.

Thus the time is rapidly approaching when the economy will need the additional restraint of a tax increase. We are confident that the Congress will respond affirmatively to the recommendations that the President has made for a tax surcharge.

Chairman PROXMIRE. Thank you very much, Chairman Ackley, for your usual persuasive and logical job in justifying the economic program that you recommend.

I would like to ask you some questions first on your assumptions in trying to get a more precise picture, if I can, of what you suggest. You are very emphatic and clear in saying you think we need a tax increase this year. However, as you know, when you came before us in February you indicated as the President had indicated that the tax increase should come on July 1. Obviously we are not going to get a tax increase on July 1. At that time it was a 6-percent surtax.

Are you recommending the same size tax? Should it be a 6-percent tax, larger, smaller; should it be a surtax, and roughly what date? You say this year. Does that mean about October 1, September 1? It certainly doesn't mean January 1, 1968, because that isn't this year unless you are talking about a fiscal year.

Mr. ACKLEY. Our expression "this year" certainly referred to enactment.

Chairman PROXMIRE. It does not refer to the effective date?

Mr. ACKLEY. I was not trying to predict the effective date that precisely.

Chairman PROXMIRE. I am not asking for prediction. I am asking what you think would be called for by the state of the economy.

Mr. ACKLEY. I think we have tried to make very clear that by the end of this year the advance of the economy will be sufficiently rapid that it would threaten the return to inflationary pressures and tight money in the absence of a tax increase.