

However, in view of the increase in Vietnam spending and the effects to be expected 6 months from now from the commendable money policy that the Fed has been pursuing this year, there is warrant for serious concern now. I may say that precisely because of this lagged effect of monetary policy, the optimum thing for the Fed to do 6 months from now may be to have the money supply growing at a slower rate than either the minority or majority report recommended; and you will again have the same parade of witnesses come up before you, chastising the Federal Reserve because it is not hewing to the chalk line which they regard as the only wisdom in these matters and which represents, I must report, an extremist view among the academic community.

My conclusion then is this:

Still hold your fire on the tax increase. We still cannot see, so to speak, the whites of the eyes of the inflation enemy. But the time has come to cock our guns. Instead of being "neutral" on the tax rise, we should be shifting to "neutral-for" (as against "neutral-neutral").

Then, if the fall brings concrete signs of a rapid upturn—a cloud as big as a man's hand will appear on the horizon and it will grow—Congress should then swiftly pass an increase in taxes of a magnitude suitable to the size of the indicated inflationary pressure. And the Joint Economic Committee should return to the mainstream of economic sobriety and lead Congress in formulating such a program.

Chairman PROXMIRE. Thank you, Professor Samuelson, for a most delightful statement, even if you will permit me to disagree slightly on your grading.

Chairman PROXMIRE. Professor Weston?

STATEMENT OF PROF. J. FRED WESTON, CHAIRMAN, DEPARTMENT OF BUSINESS ECONOMICS AND FINANCE, UNIVERSITY OF CALIFORNIA AT LOS ANGELES

Mr. WESTON. Although neither of us saw each other's papers any earlier than you saw either of our papers, in a very real sense they complement each other in the aspects of policy with which they deal. A review of the evidence on the economic outlook still presents mixed indicators. Partially this is due to the new significance of some of the elements in our economic time series.

For example, to illustrate with regard to the inventory statistics, I believe that an analysis of the composition and environment in which the inventory buildup took place changes very greatly the meaning of the large inventory buildup.

For example, one very significant component represented in-process inventories which were very heavily related to the defense buildup and in turn related to the institutional factor that defense procurement involves increasingly long leadtimes, so that progress payments are made.

While these progress payments are being made these are still counted as increases in private inventories and, instead of working these inventories down by cutting production, the defense inventories get worked down when the projects are completed and deliveries are made and this then enters into a final gross national product.

So you have a very significant element of the inventory buildup that has a greatly different significance from the traditional characteristic. Another aspect is the significance of inventory buildup in