

And again, bank credit was not effectively restricted in the first half of 1966, although the Federal Reserve was attempting to pursue a restrictive policy.

But the restriction on the growth of bank credit also began to bite severely in the second half. So the return to the easy money policy, which the Federal Reserve began to make last fall, as early as October or November, has been significant and important. Indeed it is one of the factors which has permitted the very substantial revitalization of our housing industry which we have seen since the low point of last October. As I said, I don't claim nor, I am sure, will the Federal Reserve claim, that its record on timing or on the extent to which its instruments of control have taken hold of the situation is perfect. Yet I do believe that they have attempted to use monetary policy—as I think it was intended to be used—as an instrument of stabilization—leaning against the wind and trying to curtail inflationary pressures by restricting the availability of credit to the economy, and trying to support an advance when advance is appropriate.

I think it must be recognized that the easy money policy which the Fed moved to late last fall has been an important factor in maintaining momentum during the first half year while we were going through the inventory adjustment.

Secretary FOWLER. Mr. Chairman, I would like to add one word to that.

The CHAIRMAN. I wish you would, Mr. Secretary, because I want to get straight on this connection, the connection, if you will, between interest rates and tax rates.

Secretary FOWLER. Well, this focuses on the always difficult but always necessary problem of effecting the right kind of mix between fiscal and monetary policy because these are two arms that attach to a single body and the movement of one as related to the other affects the whole. First, let me say that I will not attempt to speak for Chairman Martin of the Federal Reserve Board. He will be here to speak for himself. But I think it is no secret in the light of the announcement that was made last week when the President's message went up that at this particular time the entire Federal Reserve Board, and the Secretary of the Treasury, and the Director of the Budget, and the Council of Economic Advisers are all unanimous in the view that the best mix for the economy in the period ahead is a mix that would include some additional measure of fiscal restraint that would come from an increase in taxes and a reduction in expenditures rather than, if this expansion needs to be restrained in the period ahead, a dependence on monetary restraint. That is why in my statement on page 25 I stressed that—

For along with Federal credit demands, the failure to hold down the budget deficit would create an inflationary environment in which private credit demand could soar, and in which it would be more difficult to continue an expansionary monetary policy, and that would cut down on total available supplies of credit.

So as we see this in the period ahead, to the degree that the additional restraint is necessary, and we think it will be in the light of Chairman Ackley's presentation this morning, we believe that it is desirable to press down on the fiscal side, as it were, leaving the monetary side relatively, not perhaps entirely, free. I can't speak for what action they would find it necessary to take, but the more action we take