

of our manpower training programs and on an improvement in the operation of our labor markets.

Fourth, designing economic policy is more challenging in today's high-level economy than in an economy with an abundance of underutilized resources. In a slack economy, the appropriate policy is to stimulate an expansion of total demand at a faster rate than total productive capacity is growing. A high-level economy has to track a narrower path—not, however, a tightrope, Mr. Chairman. Nor can I quite understand a tightrope off which one can fall in both directions at the same time.

There are stabilizing forces in our economy which help to keep it on an even keel. But timely adjustments of policy are also necessary to promote a steady rate of growth. Too slow an expansion of demand would result in economic waste and human suffering. Too fast an expansion would build up inflationary pressures. To keep the economy moving steadily ahead, a close watch on economic developments and a maximum degree of flexibility in policy are required. The normal requirement for flexibility is intensified by the need for prompt action if, unexpectedly, peace should return in southeast Asia. And the President has directed that preparations should be made for that event, and kept up to date.

Fifth, the economic policy which the President has outlined for 1967 involves a mixture of monetary and fiscal measures. The record of the Federal Reserve System in responding to the changing economic climate of recent months as well as our consultations with the Federal Reserve make us confident that fiscal and monetary policies will be working toward the same objectives in the months ahead. Monetary policy is expected to continue the shift—already in process—away from the extreme tightness of last year. As a result, we expect substantial recovery in construction. During the first half of 1967, fiscal policy will be mildly stimulating. This will give time for easier credit conditions to be translated into improved liquidity of financial institutions, increased lending activity, and then increased spending. And it will cushion the effect of the reduction in inventory investment expected in the first half of the year. In the second half of the year, the expansion in construction, increased social security payments, and a leveling off in inventory investment will tend to accelerate the growth of total demand. That tendency will be partially offset by the income tax surcharge. The year as a whole should produce continued growth in total output and a better balance among residential construction, business fixed investment, and inventory investment.

Sixth, we expect an improved price record in 1967, primarily as a result of the more moderate pace of economic advance. Some of this improvement is already apparent. Wholesale prices are lower today than they were last August. In the last 2 months the increase in consumer prices has been one-tenth of 1 percent a month, about a third of the rate prior to then.

Unit labor costs will continue to rise during 1967 as a result of bigger wage settlements in a larger number of industries. But demand pressures on labor markets should abate somewhat, particularly in the unorganized sectors where pressures were greatest last year. Nevertheless, the need for restraint and responsibility in private wage and price decisions has not disappeared; if anything, it has become the