

In the face of this very special situation, with danger on all sides, and in the face of concomitant tightness in the money market that forced interest rates to their highest point in four decades, we took special and carefully selective action in the anti-inflation program announced by the President September 8. This took pinpoint action against the business investment boom by asking the Congress to suspend—as it did—tax incentives to business plant and equipment investment. And it took pinpoint action to relieve the money markets, by reducing the effects of Federal borrowing through postponement of participation certificate sales and scaling down of agency borrowing from the public, and by giving the bank regulating agencies powers designed to correct the distorted flow of savings.

The consequence of this year of timely and prudent economic policy change is an economy that still has great strength for new growth, that is proceeding under its own competitive powers, free of the apparatus of economic controls that ordinarily weighs down and distorts an economy in wartimes, an economy in which productivity remains high, unemployment remains low, an economy that gives every sign of correcting the imbalances that crept into it, and an economy in which prices and money rates are giving signs of easing.

Let me ask four questions in conclusion, and supply the answers that I believe the record just cited makes imperative:

1. Would additional restraint, say, an income tax increase effective in mid-1966 over and above other fiscal increases taken, and the strong monetary policy measures then in being have involved the risk of a recession in 1966 or early 1967?

Yes.

2. Would you approve in retrospect adding sharp fiscal restraint to the movement to sharp monetary restraint that characterized 1966 up until October?

I think not, if you were a responsible public official.

3. What assurance would you have had that the Federal Reserve System would have shifted its policy from increasing restraint to the direction of ease in the spring or summer of 1966 if the President had proposed a general income tax increase?

None, since neither the President nor the Secretary of the Treasury could guarantee congressional passage of a general tax increase had one been submitted. Therefore, there would have been every prospect of any income tax increase becoming effective when the full effect of the monetary restraint was being felt by the private economy.

4. Even if that delicate arrangement had been effected through coordination of the Federal Reserve System and the Congress, how would you have been sure that the move toward monetary ease would have had sufficient time to free up the private sector of the economy so that it could absorb the restraint of an income tax increase without a serious risk of recession?

You could not be sure, and you would have had to conclude that imposing an income tax rise on an economy stretched rigid by monetary policy would have run a serious risk of inflicting damage much greater than any of your other risks seriously threatened.

Happily that risk is no longer present since the Federal Reserve System had already shifted last fall from a policy of rigid restraint to the direction of ease, and, hopefully, the surtax proposal can be