Not only does the administration refuse to move toward fiscal restraint, but it also continues to be critical of efforts to reduce the massive rate of growth of bank credit and the money supply. It continues to carp at the Federal Reserve Board for its "fall from grace" last December, although one suspects this public posture conceals a private sigh of relief that the Board moved when it did.

BANK RESERVE GROWTH

Although interest rates have firmed further since the discount rate increase in December, the Federal Reserve has not yet taken sufficiently effective action to curtail the growth in bank reserves and bank credit to more accurately reflect real and anticipated economic growth. However, the move toward further monetary restraint must be neither too large nor too abrupt. The level of interest rates is already high by historical standards and a further sharp movement to higher rates would be likely to create serious disturbances in the financial markets.

It is for this reason that we believe monetary policy cannot do the whole job. The degree of monetary restraint which the economy can absorb at this time without undesirable side effects would not be sufficient to provide reasonable price stability under current conditions.

A reduction in the supply of money and loanable funds will raise interest rates and reduce demand for credit. However, credit demand for marginal projects can also be reduced by a more restrictive fiscal policy. Harnessing fiscal policy and monetary policy together in this fashion would result in reducing the overall level of demand but at a lower structure of interest rates than would be true if emphasis were placed on a restrictive monetary policy alone. Therefore, fiscal policy must reinforce monetary restraint while debt management considerations must not be permitted to impair its effectiveness.

Another phase of current administration economic policy is designed to reduce residual unemployment through structural measures to improve the training and skills of the labor force and to generally strengthen the performance of labor markets. While it is true that this approach will augment the ability of the economy to absorb increases in demand without inflation, the administration has too often pushed the wrong programs while letting those with real potential languish. Even when effective, these programs will not have any substantial effect in alleviating current pressures. Considerable lags exist between the beginning of training and the time the trainee is able to fill a pressing job vacancy.

While the administration now talks as though structural attacks on unemployment are another of its unique contributions to the economic expansion, the fact remains that the administration began to fashion structural tools only after persistent Republican pressure and then in a tardy and limited fashion. We have long pushed for and continue to urge improvement of training programs to update skills, ease adjustment to technological unemployment and improve the opportunities of minorities.

Much remains to be done in this area in order to reduce residual unemployment to a minimum while avoiding inflation. We shall comment at greater length on this critical aspect of economic policy later in these views.

THE WAGE-PRICE GUIDEPOSTS [5]

The administration hopes to restrain inflation by wage-price guideposts that were first enunciated in 1962 as a guide to private action but which have since become a disguished form of direct control over the private economy.

We Republicans believe that our economic system is designed to economize our natural and human resources and to channel and allocate them among alternative uses through the impersonal operation of the market system. We have placed chief reliance upon the forces of (1) free independent initiative and choice, (2) profit motivation, and (3) competition between independent sellers, seeking the favor and purchases of independent buyers, trying to get the "most-of-the-mostest" for their money. Through these forces our system is designed to maximize employment, production and purchasing power, and achieve the optimum use of resources at the level and in the directions we desire.

[5] Senator Javits agrees with much of the discussion of the guideposts advanced by his colleagues, particularly regarding their inflexibility and the coercion used by the administration to enforce them. However, he believes that the guideposts perform a useful and necessary function in a complex modern economy now burdened with the Vietnam war. He believes that they provide some economic guidance to the private sector and thus help to avoid the need for mandatory controls to curb inflation.