emphasis should lie on the need to orient price and wage decisions more closely to market conditions. The continual invocation of the phrase "wage-rate gains on the average should not exceed productivity gains on the average" is not sufficient to enable management and labor in an individual basis to determine the kind of price and wage behavior on their part needed to achieve a greater stability of the price level in a full employment economy.

We believe the guideposts have been useful in conducting a more intelligent public dialog. But we reject as inequitable and damaging to our economic system the selective, arbitrary, and punitive enforcement of what were intended to be no more than guides to private action.

REPUBLICAN POLICY PROPOSALS RESTATED

In the preceding discussion of administration policy, our views on the appropriate course of economic policy in the current inflationary environment have been implied but not precisely stated. In this section, we wish to set forth our policy proposals more fully.

The basic assumption upon which these proposals are based is that immediate steps are required to reverse the ever-worsening inflation in the economy. Further delay in applying anti-inflationary restraints will require a stronger and more disagreeable dose of restrictive medicine in the future.

A. MONETARY POLICY

The Federal Reserve Board should reenforce its increase of the discount rate last December by moving to slow down the growth of bank reserves. The Board should supply a level of reserves that will restrict the growth of bank credit to about 5 or 6 percent in the coming year in contrast to the growth of nearly 10 percent last year. The increase in the money supply (currency and demand deposits) should be held to the current and anticipated real growth of the economy and not permitted to continue at an excessive rate of increase.

A monetary policy such as we advocate would permit the economy to grow at or near its current real rate but would avoid an acceleration of the inflationary boom. However, even this degree of monetary restraint probably will not prevent a subtsantial increase in the cost of living this year in the absence of fiscal tightening designed to reduce the demand for credit.

B. FISCAL POLICY

The administration should reduce the administrative budget deficit of $6.4 billion projected for the current fiscal year and, at a minimum, produce a small surplus in fiscal 1967. The national income and product account budget for calendar 1966 should also show a surplus instead of the substantial deficit that will result from present policies.

These results should be achieved through strict control over Federal spending.[6] If expenditure control is not pursued with sufficient diligence and determination, then an increase in taxes faces the American people. These measures should be in addition to tax changes already requested by the administration.

The administration should move immediately to defer nonessential civilian expenditures, to stretch out planned spending wherever possible and to eliminate redundant and inefficient expenditures. We do not suggest a meat-ax approach to expenditure control, but rather an approach that takes cognizance of the limited skilled and professional manpower and physical plant capacity in particular areas of the economy. The Bureau of the Budget should set forth strict but carefully formulated spending priorities in this spirit, recognizing that not every dollar of Federal spending is of equal importance to the national interest.

The need to set priorities for Government spending is well illustrated by the continuing housing needs for low and moderate income citizens, and the refusal of the administration during hearings this year before the House Special Subcommittee on Housing to back a Republican amendment to the urban renewal laws which would redirect the urban renewal program by setting priorities for using available funds in projects designed for this necessary housing.

Prior to the enactment of the 1964 tax reduction, administration officials maintained that reductions in spending would be virtually impossible to make.

[6] See Senator Javits' footnote, p. 33.