Even more dramatic have been the declines in some of the more sensitive short-term or money market rates, such as those on Treasury bills. In some instances, these rates have fallen by as much as 1½ percentage points. For example, the 6-month Treasury bill rate has fallen from a peak of just over 6 percent to just over 4½ percent recently. Some rates which characteristically adjust more sluggishly to changes in general credit conditions, such as mortgage yields and bank lending rates, have shown less downward movement thus far, but in varying degree they have also turned lower.

There are encouraging signs that the economy is responding well to these changes in financial conditions, undertaking orderly corrective adjustments to last year's excesses. Overoptimistic estimates of market demands in 1966—typical of emerging inflationary expectations—had induced business to produce far beyond current sales requirements. As a result, inventory accumulation was large throughout the year, and stocks began to pile up in exceptionally large volume in the final months of 1966. Efforts are currently being made to bring production into line with sales in many industries, providing a sounder basis for expansion later in the year.

Moreover, as the pace of industrial activity has slowed, imports have begun to subside. With export growth maintained, there are signs that the U.S. international trade balance is on the mend again. This is indeed a welcome development at a time when our balance on international capital flows shows signs of slipping.

Further, flows of savings to thrift institutions have resumed with vigor. The net inflow of funds to savings and loan associations showed substantial improvement in November and December, and high inflows appear to have continued in January. Similar inflow gains are being reported at mutual savings banks and in time deposits at commercial banks. It would appear that the shortage of funds for the housing industry is well on its way to being alleviated.

The task of economic policy in the period ahead is to support continued full utilization of resources, while assisting the economy in restoring the price stability and international trade trends that graced the expansion from 1961 through mid-1965. It will not be an easy task, possibly not one we can accomplish within so short a span as a year. But with monetary policy responding flexibly to changing pressures on the economy, and with the President's tax proposals a bulwark against a repetition of surges in demands that marred the economy's performance in 1966, we can look forward with greater confidence to a better balanced expansion in 1967.

Chairman PROXMIRE. Thank you very much, Mr. Martin.

First, I want to congratulate you on a clear and candid statement and a helpful and enlightening statement.

Since you put a great deal of emphasis at the end, particularly, on the tax increase proposed by the President, the 6-percent surtax which you say would be a bulwark against excessive demand, I wonder if you would feel that it would be equally helpful if, instead of the increase in taxes, there was a commensurate reduction in spending with the net same effect on the budget, or is there something about a tax increase psychologically and for other reasons, technical reasons, that might be more helpful?