

Senator JAVITS. Right now. Is it fair, I want to ask you? Suppose we don't enact it right now. What does the Federal Reserve Board have in mind to do about it?

Mr. MARTIN. As I said earlier, this is a problem of expenditure control, of paying for the war. I am not criticizing the Defense Department or anyone else for the difficulty in getting accurate figures, but the expenses have burgeoned on us, and we haven't been able to reduce them. I hope that the overhang of inventory from the inflation that got ahead of us in 1965 and 1966 can be adjusted early this year in such a way that we will have a resumption of both housing activity and other activity in the last half of 1967. It may be that if that works out, a tax increase would be desirable as a means of preventing a recurrence of what happened last year when almost the entire brunt of this was borne by monetary policy.

There were some fiscal actions. I am well aware of the fact that the Treasury did speed up tax collections. Unfortunately, the speeding up of tax collections put additional pressure on the money market, and made it a very difficult period to handle. I have no question of their desire to cooperate with us, and we will continue to cooperate with them in every way that we can.

Senator JAVITS. Now the argument for the 90-day, wait-and-see proposition is that we may be facing an economic recession, and on the classic theory that at that point you certainly don't increase taxes. A lot of people feel we should wait 90 days. Now do you or the Board, whichever you can speak for, see any indications of a recession facing us which might be ascertainable within that period?

Mr. MARTIN. I am worried about the overhang of inventory in relation to sales, which was built up in a good many lines. I am not ready to forecast what the last half of 1967 is going to be, but I believe that the adjustments are being made in this overhang now, and I am optimistic about the economy.

Senator JAVITS. So you don't really think that we are justified on that account, because of fear of a recession, in waiting the 90 days, or any period.

Mr. MARTIN. There would be differences of opinion within the Federal Reserve Board and in the staff of the Federal Reserve Board on that. I do not.

Senator JAVITS. You do not. Now, finally, I would like to tell you this, if it does your heart any good, that this strange path trod by the Secretary of the Treasury goes like this. In 1966, the Council of Economic Advisers said:

The Administration regretted that the discount rate increase last December interrupted that pattern, to wit, clearly fiscal and monetary policy must be closely coordinated, and effective coordination has prevailed in the past five years.

Nonetheless, the Secretary of the Treasury, testifying here the other day, said:

I think that the Administration's economic policy as a whole in 1966, including our prudent use of selective fiscal tools as supplementary to general and severe monetary restraint, brought the economy through a trying time of transition and uncertainties with minimum damage, and so on.

Now that is quite a shift from the report of 1966, and I just thought that you ought to know the basis that made me say what I did. I have just one more question, if I have time. Are you concerned about the rate of capital spending in the second half of 1967?