as a way out of the air-pocket problem later this year. It is not an easy question to settle, nor do these calculations offer a very clear guide at this time. For the long pull, this country is firmly committed to a high-investment policy and the accompanying investment incentives. But for the immediate future, considerations of overcapacity must also enter our thinking.

THE FISCAL-MONETARY MIX AND POLICY IN 1966

This brings us to our frontline of flexibility in economic policy; namely, monetary policy. Though I speak in terms of flexibility, I should at the outset make it clear that, however pleased we may be at the monetary easing we have already witnessed—an easing that represents a welcome response to current and prospective movements of total demand rather than to cost-push echoes of past demand pressures—our policy objective must be a lasting return to lower interest rates and more stable financial markets. The administration and Congress, in turn, do their part by taking pressure off the monetary authorities through adequate fiscal measures, continued vigilance on discretionary wage-price decisions, and sufficient administrative measures to keep our balance of payments under control.

The monetary and fiscal authorities are confounding the critics and skeptics by pulling together in a coordinated sequence of easier money and higher taxes. One wishes the confounding had started sooner. Indeed, the administration, the Federal Reserve, and the Congress would have served the cause of economic stability and balance well by putting through a similar package in 1966. In economic logic, it is hard to see why an ounce of prevention in 1966 would not have been worth at least an ounce of cure in 1967—and probably a good deal more, even if I cannot go all the way to a pound.

And while I'm on the subject of 1966 economic policy—which can rightfully claim, of course, that magnificent advances in output, incomes, profits, and wages were accomplished with a degree of inflation that almost any country in the world except the United States would call modest—I doubt that I can escape without expressing some views on fiscal policy. Fortunately, I have already expressed those in my recent book—*New Dimensions of Political Economy*—which went to the printer last August. I stand on that judgment, as expressed in the following excerpts from the section—of the second chapter—on "The 'New Economics' in High-Pressure Prosperity":

> Speaking solely as an economist, and with the benefit of hindsight, I come to this judgment on the tax issue: a temporary tax increase early in 1966, with special focus on the investment sector, would have cost us little in employment opportunities and gained a lot in (a) reducing the pressure of demand inflation in 1966 and of the echoing wage, cost, and price increases in 1967; (b) easing the adverse pressures of the boom on both imports and exports; (c) relieving the undue burdens on monetary policy; and (d) giving us a handy tool—in the form of tax surcharges removed and investment credits restored—to offset the post-Vietnam slack in the economy.

I recognize that this judgment on purely economic grounds cannot be the full measure of the performance of the administration and Congress in 1966. Again, as I said in my book:

> Reviewing the course of the economic policy debate in the first half of 1966, one is struck by its generally high level. There was no lack of informed and responsible public discussion. There was no lack of economic understanding