

There is, I believe, growing agreement in the Congress, if I am not mistaken, both among Republicans and Democrats that an escalator clause should be applied to the social security benefit payments and perhaps also to Government savings bonds.

There is one special matter I would like to insert here. The Council's report considers the problem whether the 1966 increase in consumer prices, which is about 3 percent, should not be added to the productivity increases in the 1967 wage bargaining contracts as retroactive pay, so to speak. Some economists have so argued.

The Council takes a different view, I think quite rightly. They argue that the 1966 consumer price increase should not be added. I agree with this conclusion, but for a different reason than that stated in their report.

I feel it should not be added because the 1966 pay hike has already offset and indeed more than offset the 1966 consumer price increase. Money wages including supplements and fringes rose by about 7 percent in 1966, a record figure.

The consumer price increase of 1966 of about 3 percent has therefore already been taken care of and more. The problem of anticipated future increases in consumer prices is, of course, rightly a matter of concern.

My second point relates to the stabilization role of fiscal policy. In general I agree very much with the Council's statement on the need for fiscal flexibility, in particular the following:

In any over-all stabilization program, fiscal policy must play a major role. Fiscal policy is generally more even in its impact than monetary policy. Its effects tend to be more readily predictable and less subject to time lags.

It is by now, I believe, widely agreed that fiscal policy can effectively be employed to promote growth and full employment. But the machinery needed to cope adequately with short run, cyclical fluctuations is sadly missing. A continuously pursued and active fiscal policy requires something more than tax and expenditure programs designed to achieve long-term growth and full employment.

The current economic report of the President does indeed suggest one important forward-looking step. Quite apart from any change in tax structure—which is quite a separate problem—the President suggests a quick action measure to cope with possible impending inflationary pressures. He proposes, as well all know, a surcharge on the regular tax liabilities of corporations and individuals beginning July of this year and applicable for a limited period. Passage of a bill of this character is obviously relatively easy compared with a formal tax revision bill. Moreover, as conditions change, the President may alter his proposal.

Some of my best friends believe that a procedure of this sort provides adequate flexibility. I cannot agree. It fails to meet the test of a continuously active and flexible fiscal policy. That this is true becomes alarmingly apparent when we compare it with monetary policy. Imagine the Federal Reserve Board going to Congress in January asking for approval to put into effect rediscount policy and open market operations 6 months hence. This is, of course, too ridiculous even to contemplate. Indeed the Board reviews the changing economic scene day by day and week by week, and is prepared to change the discount rate and open market operations as circumstances demand.