

However, when we analyze the components of that price index, we learn a rather startling thing. Prices of farm products in those 4 months increased 8 percent, or on an annually calculated basis, the fantastic figure of 24 percent, a 24-percent increase in prices of farm products in that 4-month period calculated on an annual basis. Well, this is enough to scare anybody.

But actually the Wholesale Price Index, omitting farm products and foods, rose by a very moderate amount. If these facts had been clearly in the minds of everybody discussing this situation at that time, I think it might have had quite an influence on opinion as it became apparent around February or so of 1966. Farm prices flattened out after February and then fell abruptly to normal levels by the end of the year. It was a temporary scarcity situation, not a case of an overheated economy.

Now there were restraints already present, both monetary and fiscal at that time, quite apart from any possible new tax increase. There was the very severe decline of housing, owing to the monetary policy that was pursued, and there was the increase in social security taxes and the return to excise taxes, which together made a tax increase of \$7 billion, which is not inconsiderable.

I must say that I am not very happy about the kind of restraints that were imposed on the monetary side in this period, which weighed so terrifically on housing, whereas on the other side bank loans were allowed to continue to rise for the first half of the year at the same very high rate as prevailed the year before, namely, on an annually calculated basis of about \$20 billion. This is the kind of discriminatory result that can follow from monetary policy, but fell peculiarly upon one part of the economy, namely, housing, in this period.

If we had had a really coordinated monetary and fiscal policy in 1965 and 1966, I should have favored relatively easy monetary policies and a tax increase in February. But this was not the situation that confronted us.

It was very interesting to note how many of the people who favored a tax increase in February in 1, 2, or 3 months began to climb off the bandwagon. If now we ask the question, "Wouldn't we be better off today if we had imposed a tax in February?" my answer would be "No."

I think the degree of restraint, though I wasn't particularly happy about the manner of the restraint, the degree of restraint, monetary and fiscal, for the year, was about right.

When you approach the peak of a long period of expansion, the degree of price increase that we had in 1966 over 1965, I would regard as moderate, indeed, it is less than the average increase per year that Western European countries have experienced in the last 15 years.

The degree of restraint imposed was not sufficiently severe, I think wisely, to prevent a tremendous increase in employment. Employment increased in 1966 by 1.9 million. Think of the impact that has upon the standard of living of 5 million people, when you include the dependents of the worker who became employed.

So far as the general mass of employees were concerned, their real wages rose at the very high figure of 4 percent. Obviously they did not suffer. The aged group is always cited. That could have been easily corrected, and we are in process of correcting it now.