

The viscosities incident to the expenditure process are such that I don't see any real possibility of operating on that side in a very countercyclical way or shortrun adjustments.

If we manage economic policy reasonably well, the adjustments that we are going to make are not those incident to a 1933, or even a 1938, or even a 1958. They are going to be pretty modest adjustments of an economy that may be straying a little bit above or below the growth paths, but not very much. And under those circumstances, variations in expenditures, I think, just cannot be operated to be helpful. The expenditure process is too slow.

Those decisions ought to be made on the other grounds. In principle, it should be possible to operate on the tax side by variations in tax rates. There is prose in some of my papers where I have supported this, and I still would support it. I am however, less optimistic about whether in fact in the foreseeable future this is going to be an available instrument of policy.

Therefore, I come to the conclusion that we must keep the basic budget position reasonably in balance. By "reasonably in balance," I mean we should keep the relationship between full-employment revenues and expenditures in line. If so, the kind of adjustments that we are going to need to keep the economy on course can probably largely be done by monetary policy. But it won't require the kind of recent zigs and zags in monetary policy, where we went from an 11-percent to a 1-percent annualized rate of growth within a year's time. This is not necessary or desirable for good stabilization policy even in the monetary area.

Representative WIDNALL. Thank you. May I close my questioning in a light vein.

I saw your testimony:

In only 5½ of the 10 years could the operation of fiscal policy be said to be not clearly perverse in its effect on the economy. This is a score of 55, which in academy is pretty close to a failing grade.

I want to congratulate you on your courage, because I understand today you may cause psychiatric troubles somewhere, if you criticize anybody or hurt their feelings about grading them. I understand that you are not supposed to tell anybody whether they got zero or 100 percent, or anywhere along the line, or you will have a very severe problem in handling people.

Mr. McCracken. Confession is also useful psychiatry. One of those perverse periods was 1958, when I was a member of the Council of Economic Advisers.

Representative REUSS. I noticed the timing in that. Things went worse after you got off, I must say.

Mr. McCracken. I think I will just leave it at that.

Representative REUSS. Both of you gentlemen have been very patient, and I won't keep you longer except to spend a minute or two with Dr. Hansen on the wage-price guidepost matter.

Do I gather correctly from what I believe you said that you would favor this year, 1967, something like a 5-percent wage guidepost, that being constructed by a combination of the productivity increase and the anticipated cost of living increase this year, or a considerable part of it, and that you would recommend a price guidepost such as we have had in the past, productivity increase with the above-average and