investment credit. Of all fiscal tools available, this one was probably the most cumbersome since its major effect could not be felt until well into 1967 when it was not clear that restraint would be needed. This change in signals has, however, already been very upsetting to some industries. For example, the American Railway Car Institute recently surveyed its members and based upon replies received estimated that only 10,028 railroad cars would be ordered in 1967.[3] Since it is believed that 7,580 of these cars will be built in the railroads own shops, no more than 2,448 will be ordered from outside carbuilders. In the last three years orders of railroad cars from independent builders were 1966—70,168, 1965—60,600, and 1964—40,518. According to the American Railway Car Institute, "It has now become clear that the suspension of the investment credit has dealt a staggering blow to the railroad car-builders and their suppliers." The cost of this fiscal experiment will be measured in the loss of thousands of jobs and millions of dollars income.

Now the President asks for a 6% surcharge on corporate and individual income taxes. This despite indications that the economy is either headed into the fifth postwar recession or the rate of rise in economic activity will be substantially reduced.

V. CURRENT STATUS OF THE ECONOMY

Let us look at the evidence. The leading indicators of economic activity are weak. This is the pattern typically reflected prior to recessions, but also weakness frequently occurs prior to a slowup in the rate of rise in the economy. Secondly, the growth in the money supply has been severely retarded and this pattern is typical of a recession. In fact, the seven-month retardation in monetary growth from April through November 1966 was the most severe of any similar postwar period. The duration of monetary weakness has so far been somewhat less than typically precedes a recession, but we cannot be sure monetary contraction has ceased. Individual sectors of the economy have clearly lost much of their buoyancy. In fact, the only major area slated for significant advances in the next several months appears to be Government spending. Consumers are showing less willingness to spend and reflect concern about the declining value of the dollar. Housing construction is down sharply reflecting primarily the extremely tight money market of 1966. Tight money inevitably takes a serious toll in the housing industry, but the inability of banks and savings and loan associations to aggressively compete for funds increased the housing penalty. Plant and equipment expenditures in coming months will hold at best and, in fact, may shortly recede due to the anticipated restoration of the investment credit on January 1, 1968 plus slack product demands and narrowing profit margins. The recent slowup in business sales growth has led to considerable involuntary inventory accumulation and inventories now appear high relative to current sales. Inflation continues due to prior excess demand even though price pressures are abating.

Once again we observe the overwhelming impact of monetary policy which has been highly restrictive since April 1966. The economy is clearly stalling out yet fiscal stimulus continues unabated.

VI. APPROPRIATE POLICIES FOR THE PRESENT AND FUTURE

While recognizing the stubborn and persistent monetary-fiscal errors of the past one and one-half years for what they are, what should be done now? In my opinion, a prudent short-run policy would consist of the following: (1) Promptly restore monetary growth to about 3% per year so that a serious recession can be avoided and economic growth restored. We must not be mislead into thinking that monetary policy is now easy because interest rates have declined and free reserves have risen. Based on past experience, we cannot expect a resumption in the growth in private spending until monetary growth is restored. (2)

[3] Memorandum on the Effect of P.L. 89–800 on Railroad Carbuilding Industry, American Railway Car Institute, 11 East 44th Street, New York, New York 10017, February 6, 1967.