

difficulties of getting a tax bill through expeditiously resulted in a loss of enthusiasm.

It was clear that the adherents of tax increases were deserting in the second quarter of 1966. The President's Business Council in May seemed to be 3-1 or 2-1 against a rise of taxes.

RANKS OF THOSE favoring tax rises would have been depleted much more had not the Fed introduced a dear money policy which began to bite in May 1966, and its extent not anticipated nor even wanted by the Fed. The bankers now largely joined the tax increase group. They much preferred a tax increase which would allocate the burdens on the whole population to a severely restrictive monetary policy, which especially threatened them.

At various times the Republican leadership expressed views on anti-inflationary policy. As a rule they urged restrictive monetary policy and reduced federal spending. Congressman Melvin Laird speaking for the Republican Conference, in mid-April espoused a cut in spending; but not a rise of taxes. Senator Javits in May still was for the tax increase as was Dirksen in July, though reluctantly. A poll of Congressmen late in 1966 revealed 80 percent against a tax increase.

It was not easy to get the proper mix of monetary and fiscal policy. With monetary policy highly and dangerously restrictive, the Treasury was most hesitant in pushing through large tax increases in the last 8 months of 1966. The movement of leading indicators pushed the Treasury in the same direction.

ONCE MONETARY policy had eased greatly the Treasury could recommend to the President a tax increase though one that might be postponed or withdrawn if the economy faltered in the first half of 1967 or even later.

The Treasury was up against a mass of uncertainties as was almost everyone else. How much would Vietnam expenditures rise? How much would prices rise in response to wage escalation, reduced increases in productivity, and general reduction of excess capacity? How to weigh the decline suggested by the leading indicators against the uncertain rise of military outlays?

Government pronouncements reflected these uncertainties. Late in 1965 there were rumors from Paris that Secretary Fowler favored a rise of taxes. In February Fowler was considering all alternatives but emphasizing tax policy. But at the Joint Economic Committee hearings he would not press down on the brakes vigorously. He hoped that the Congress would be ready for a tax increase if needed. By March, Fowler announced that a modest tax rise may be necessary. The President apprised of the direction of the Leading Indicators in the latter part of March, was not convinced of a need of a tax increase. Much would depend on the spending of the Government. Fowler also wanted more data. A few days later the President would accept a rise of taxes if more restraint was needed. He might even ask for a tax increase in April if adequate economies were not to be achieved. In May Mr. Ackley agreed that a temporary tax rise may be necessary; but he would wait. And to Fowler the situation was not clear. Should the deficits rise greatly and prices and demand continue to rise, Arthur Okun of the Council feared that a rise in taxes would be triggered. The economic prospects still seemed uncertain to the President and the Secretary of the Treasury in June. But August the Treasury seemed more receptive to a tax increase as a means of achieving a better mix of monetary and fiscal policy. Ackley in August would reduce interest rates and increase taxes.

A VIEW HELD in some quarters was that had the Government introduced a general anti-inflationary tax policy in early 1966 many of our 1967 problems would have been solved. But there were serious obstacles. Not only the Congress but the public also were heavily against a general tax increase. The Congress favored a cut in spending at home which was not to be achieved. In this same period the financial groups stressed monetary rather than fiscal policy. Had the Government put a tax program into the works in late March (say) then assuming acceptance by the Congress by June-July—a bold assumption indeed—then a tax increase on top of the dangerous monetary situation might well have greatly damaged the economy. The only safe thing to do was to introduce a tax bill once the Fed had shown an inclination to end its costly restrictive monetary policy and also to ask for a tax increase—as it did in early 1967—that would be recalled should the economy falter.

In the light of the great advances in 1961-1966 in GNP, stability, employment, unemployment, standards of living, growth of assets both for business and the family—the disequilibria in 1967 which Senator Javits and others emphasize seem