

this probability, and to recommend that policy be adjusted to it, is not to suggest that 4- to 4½-percent unemployment is socially desirable or acceptable as a permanent target. It is rather a recognition of the fact that the economic overheating necessary to hold unemployment below this level may well, in the long run, lead to even higher unemployment and a slower rate of economic growth as a result of the imbalances that result from demand-pull inflation.

One important aspect of structural unemployment is missing from the report: the effect of Federal minimum wage legislation. On February 1, 1967, the minimum wage was boosted to \$1.40 per hour and is scheduled to increase to \$1.60 per hour in 1968. This may explain much of the high unemployment rates among teenagers. In addition, these wage rates are higher than the rate paid persons in some job retraining programs, discouraging participation in our primary means of reducing structural unemployment.

STABILIZATION POLICY FOR 1967

With these comments as background, what should be the major content and thrust of Federal stabilization policies in 1967? "Caution" and "flexibility" should be the watchwords—caution in applying either expansive or restrictive measures; flexibility in order to move quickly in whichever direction events dictate.

Flexibility is especially necessary in order to guard against re-emergence of the overheating that is the basic cause of our current difficulties. If, as seems likely, the current weakness in private demand is replaced by marked strengthening later in the year, the case for additional fiscal restraint will be strong; otherwise, monetary conditions are again likely to tighten more than is desirable. But even under these conditions the American Bankers Association would be reluctant to endorse a surcharge on personal and corporate income taxes. Fiscal restraint can be achieved through either an increase in taxes or a decrease in spending. We strongly favor the latter approach because of our great concern over the mushrooming of Federal spending and influence in recent years. Of considerable practical significance is the fact that taxes, once raised "temporarily," are sometimes very difficult to reduce later.

The avoidance of additional overheating in the months ahead will not in itself restore balance to the economic advance. As noted earlier, wage settlements in 1967, as a legacy of 1966, are likely to continue to exceed productivity gains by a significant margin. The avoidance of further demand-pull inflation through fiscal restraint will set the stage for reestablishing such balance later, perhaps in 1968. In the meantime, we will simply have to bear the costs of our earlier mistakes. These costs will not have proved so great, on balance, if in the future they lead to firmer and timelier adjustments of Federal stabilization policies to changes in economic conditions.

MONETARY POLICY AND THE MORTGAGE MARKET

An additional important reason for avoiding further demand-pull inflation through appropriate fiscal actions in 1967 is the need to avoid the extreme reliance on monetary policy that occurred in 1966. Easier monetary conditions—and considerable easing has occurred—would