visions and along with the cessation of sale of participation certificates, so changed expectations in the financial markets that there was a marked reduction in interest rates and in the strength of final demand (gross national product minus inventory accumulation) as 1966 ended.

It is our view that while the fiscal policy moves taken were in the appropriate direction, they came too late, were insufficient in amount and misdirected in form. There was a concern for what was thought to be "excessive" amounts of investment. There was also increasing concern that there would be growing upward pressures on wage rates and a slower growth in productivity as the economy reached full employment. Under these circumstances the most sensible policies to pursue would have been to restrain total demand by a tighter fiscal policy while at the same time permitting the mix of demand to contain more investment, especially in equipment. If this had been done, total demand could have been kept within the economy's potential to produce, and increases in productivity stimulated by the addition of fast payoff additions to productive capacity.

The actual policies pursued were quite the opposite of these. They were to reduce investment and limit the extension of business loans by commercial banks. While these policies acted to lessen total demands, they did it in a way which discouraged the generation of new capacity in general and therefore unduly discouraged capacity which would increase productivity.

We have dwelt at length with an examination of policies pursued in 1966 because we feel that some of the policies which are suggested for 1967 expose us once again to many of the same risks we faced at the outset of 1966. The President's budget plans, assuming the proposed tax increase is enacted and that total demand is at the level of $787 billion of gross national product projected by the Council, imply an economy at full employment with a deficit on "National income and product account." Once again, we are pursuing policies meant to exact the last ounce of output from the economy though such a policy implies the chance that total demand will be too strong and hence inflationary.

Once we explicitly recognize that the Council's economic projections for 1967, like all economic projections, are uncertain projections, the appropriateness of their fiscal policy suggestions is open to further question. For the total private demand in prospect, different levels of Federal spending and taxing subject the economy to a chance that total demands will either exceed or fall short of our capacity to produce at stable prices. The more stimulating the fiscal policy pursued at any total or private demand, the larger is the chance that aggregate demand will outrun capacity and the smaller is the chance that it will fall short.

The choice of the most appropriate role for Federal spending and taxing requires an estimate of the probable costs associated with excessive total demand and with insufficient total demand. In 1967, the costs of excessive total demand are clear and substantial. Pressures for wage increases are already strong and will only be increased by further rises in prices. Monetary policy was strained to the extreme in late 1966 and it would be unwise to take actions which might require a very restrictive monetary policy in late 1967. The balance-