

of-payments position of the United States would also be adversely affected by a renewal of inflationary pressures; exports will tend to fall and imports will tend again to grow sharply. Moreover, the Council's report contains many references to the fact that cost increases—that is, wage increases, price increases, or interest rate increases—once introduced become institutionalized as a permanent part of the economic structure. For all these reasons excessive demands leading to price inflation in 1967 would be most detrimental to both our short-run and long-run objectives.

To be sure, there are also costs associated with a level of Federal spending and taxing, which results in insufficient total demand. An obvious and most important cost is that of unemployment of men and machines. However, if it appeared as the year progresses that total demand is weak, several options would be open to the stabilization authorities. Monetary policy could be eased to accelerate the expansion, the investment tax credit could be reinstated, and certain of the Government's socially desirable programs now being curtailed, could be expanded. If a major drop in demand occurred as a result of a settlement in Vietnam, a general tax reduction could be considered.

Thus, finding the right fiscal policy is a question of balancing the risks. The costs of too expensive a fiscal policy are clearly substantial. At the moment, the costs of potential under-utilization are less, in large part, because of our ability quickly and effectively to initiate expansionary influences. This strongly suggests that the appropriate fiscal policy for 1967 is one which exposes us to only a very small chance that total demands will exceed our capacity to produce at stable prices.

A. STABILIZING BUDGET FOR 1967

For many years the CED had advocated a budget policy designed to deal effectively with the problem of balancing the demands in the years ahead with our capacity to produce at stable prices as well as the problem of developing the incentive and capacity for rapid growth. The main characteristics of this budget policy which is concerned not only with economic stability but also economic growth and efficiency are the following:

Policy should aim for a budget surplus to be used for debt retirement under conditions of high employment. This is important because the surplus would add to the funds available for private investment, thereby easing the pressures on monetary policy and promoting steady economic growth.

The impact of the budget should vary with the condition of the economy as a whole, being more expansive when the economy is depressed and more restrictive when the economy is booming or inflationary.

The overall impact that the budget exerts upon the economy should not, when combined with appropriate monetary and other policies, be so restrictive as to make attainment of high employment unlikely, or be so expansive as to lead to persistent inflation.

Such a stabilizing budget policy is achieved when the Government sets its expenditure programs and tax rates so they would yield a constant, moderate surplus under conditions of high employment and price stability. Such a policy is independent of conditions at any particular time and it does not depend on correctly forecasting the