

NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

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In this brief statement on the President's and the Council's 1967 reports, it is necessary to be highly selective in one's commentary. And at the outset, I would like to single out what I consider to be a most significant observation of the Council's report and its implications for policy. The observation is that:

This year, the risks are on both sides, demand could grow too sluggishly or too strongly. A balance of risks is a necessary feature of a full employment economy moving ahead essentially in line with potential.

This is not to say that uncertainty itself is a unique element of the 1967 forecast. It is, of course, an integral part of any forecast, but to varying degree. A year ago, for example, the signs of continued economic growth were quite clear, as was the danger of overexuberance. In my statement on the 1966 report, I pointed out that while a further reduction in unemployment from the "interim" 4-percent target was an appropriate goal of public policy:

This goal must be approached gradually, in view of the increased danger of inflation. In the period ahead, the basic task of economic policy will be to restrain the overall rise in demand, in order to keep it in line with the economy's growth in aggregate capacity.

Surprises did develop in the 1966 economy, most particularly the degree of stimulus provided by our Vietnam effort. Overall economic expansion was thus greater than most forecasters had expected. But few were fooled by the actual direction the economy took.

This year, however, there is great uncertainty even as to the direction of the economy. Such a high degree of uncertainty calls for the greatest degree of flexibility in Government stabilization policies. The Council has rightly stressed the need for flexibility in its report. The President's surtax proposal, therefore, and other fiscal restraints, should be regarded not as rigid recommendations but rather as contingency plans to be reviewed in the light of business conditions at midyear.

The need for maximum short-run flexibility in fiscal policies emphasizes the importance of providing some form of discretionary executive authority over tax rates. Such a proposal is not new, but the need for it is greater than ever in a "full employment" economy where the margin for error in Government policy is so narrow. I recognize, of course, that such a proposal would continue to face formidable political obstacles. But as the Council so rightly points out in its report, continuous pursuit of an active fiscal policy would probably result in relatively small adjustments in tax rates at any particular time.

Furthermore, the Congress could retain its ultimate power over taxes by reserving the right to approve any executive tax action within a stated period of time. In any event, a timely and flexible fiscal