response to changing economic conditions is so imperative that limited discretionary executive authority over taxes, in one form or another, is a question for serious and prompt congressional consideration.

In the midst of uncertainty for the year as a whole, the Council has rightly recognized the value of a stimulative fiscal policy in the first half of 1967. In view of the perceptible slowing and crosscurrents now visible in the economy, the projected first-half deficit of more than $5 billion in the national income accounts budget, at annual rates, will provide a welcome stimulus. Incidentally, the emphasis on the NIA budget concept both in the Council's annual report and the President's 1967–68 budget is to be commended. This concept needs to be impressed upon the public as a more useful measure of the Federal Government's economic impact than either the "cash" or "administrative" budgets.

The Council's overall view of 1967 prospects corresponds closely with our own NAMSB staff forecast published last December. Given an appropriate mix of Federal economic policies—and reasonably good fortune—was anticipate that GNP will rise in 1967 by 6 percent or so in current prices and by slightly less than 4 percent in constant prices. We agree with the Council that the rate of growth in the first half of the year will be retarded, primarily by reduced accumulation of business inventories. But further increases in Government spending and in business capital outlays, and a continued high level of consumer incomes and spending, should keep the economy moving forward. Later in the year, support will be afforded by a strong recovery in housing and related industries. Indeed, recent data suggest that the housing recovery—as we have forecast—is proceeding at a more rapid pace than most observers had anticipated.

As the Council notes, price pressures this year are likely to come more from the cost side than from the demand side, in contrast with the 1966 experience. In this regard, I strongly agree with the Council's recognition that, given the present structure of the economy, policies designed to expand demand cannot lower unemployment much below 4 percent without generating strong inflationary pressures. The proper prescription in these circumstances, as the Council notes, is to direct efforts toward improving the structure of labor markets and the efficiency of manpower training programs. I also strongly agree with the Council's reaffirmation of "the productivity principle" as "the only valid and noninflationary standard for wage advances," and with its opposition to automatic wage increases tied to the consumer price index. It is to be regretted, however, that some of the Council's language regarding wage-price policy in 1967 seems to accept the inevitability of wage increases in excess of productivity gains.

The President's program for increased fiscal restraint and greater monetary ease in 1967 recognizes the desirability of restoring a better balance in the fiscal-monetary policy mix. This balance was lacking in 1966. It is true, as the Council points out, that fiscal policy was used to restrain the economy in early 1966 and that the NIA budget was in surplus during this period. But the surplus should have been larger and the degree of fiscal restraint greater. It is perhaps an understatement that, in the Council's words, "the question of whether a different timing or different magnitude of fiscal actions might have produced a more favorable balance in 1966 will long interest and challenge analysts of economic policy."