Senator JORDAN. Mr. Butler, would you be concerned with the January report that industrial production showed a decline of six-tenths of 1 percent, indicating that the economy is not so buoyant as has been anticipated by some of the people who have prepared the budget?

Mr. BUTLER. I think one can never take a 1-month change in the index of industrial production, or any of these other economic statistics as making a trend. Our view is the gross national product in the first half of the year will rise, a somewhat slower rise in the second half, but nonetheless, a rise. I think that one of the basic reasons for seeking fiscal responsibility here is in addition to its repercussions on confidence abroad, which I think are very important, but also this would get the Federal Reserve out of the business of financing inflation. With the size of the deficits that we face and we have had in the past year, the Federal Reserve has had to make it possible for the Government to finance the deficit, and in doing so, the Federal Reserve has increased the supply of money and credit in a very inflationary fashion.

One of the main reasons for asking for restraint on spending plus a tax increase is to enable us to slow the rise in money and credit to tolerable and reasonable proportions.

I think there is plenty of what new economists call aggregate demand around to keep business moving ahead, even with these measure of fiscal restraint and with proper monetary policies, I think you could slow down, over time, the rate of inflation, while not, hopefully, bringing on any recession.

I think the danger in not taking these fiscal measures is that at some point you will have to jam on the monetary brakes, and run very great risks of a recession which could be more difficult and intractable than the ones we have had recently.

In particular, if you run into a recession, with a $20 billion budget deficit, I think your ability to deal with the recession through fiscal measures is severely restricted, and I do not like to see our country running these risks.

Senator JORDAN. Thank you.

Chairman PROXMIRE. Congressman Reuss?

Representative REUSS. Thank you, Mr. Chairman. I, too, want to express our gratitude to these three excellent witnesses for the help they are giving us. I think a lot of the public may not realize that witnesses like this are very busy men, that the papers which they prepare for us are a labor of love, and I am very grateful.

Chairman PROXMIRE. If the Congressman will yield, I join in that wholeheartedly. I know they have spent a lot of time on their excellent papers; they are most useful.

Representative REUSS. I want to state that Mr. Butler and Mr. Behrman, particularly, have indicated their belief that it is essential that we keep our domestic economy from becoming inflated, and I certainly agree. I am ready to spend less, tax more, create less money, or whatever is necessary to do it, and I gather that Mr. Machlup agrees with that, too. However, I guess I may have the same minor quarrel with Mr. Behrman and Mr. Butler that I think Mr. Machlup has. Suppose we do all these things. Let us just stipulate that from here on out, domestically, it is going to be full employment without inflation. We are just not going to have any more 3- and 4-percent increases in the