

THE POLICY MEASURES NEEDED

The time is long overdue for us to recognize and act upon the fact that we cannot have both guns and butter. It has long been clear—and it is even clearer today—that we need a strong measure of fiscal restraint. I subscribe enthusiastically to the view that Federal spending must be brought under control. I would welcome a cut of several billion dollars in Federal expenditures because this would be the most effective way to exert fiscal restraint. But, in my view, we face a national and international financial emergency, and I doubt that expenditures are going to be cut by several billion dollars. This is why I strongly support the prompt enactment of the 10 percent income tax surcharge. I can see no other way to obtain the fiscal restraint so urgently needed to halt inflation and to strengthen the dollar abroad.

With enactment of the surcharge, the Federal Reserve authorities will be permitted to move gradually and carefully toward lesser availability of credit. Teamed with fiscal restraint, monetary restraint can be used in a balanced way to take the steam out of inflation.

Although there are many aspects of the President's New Year's balance of payments program which I dislike because they interfere with the free flow of goods and services and free capital movements, I nonetheless think the program is needed on a temporary basis until inflation is brought under control.

Finally, it makes sense to remove the gold cover behind Federal Reserve notes. There are risks in doing so. It may remove some of the pressure to halt inflation, and it may also encourage a rise in gold purchases by foreigners. On balance, however, it seems to me that it is desirable to remove the gold cover.

In conclusion, then, it is my judgment that the risks this year are on the side of too much exuberance in the rate of economic expansion. They are on the side of an escalation of wages and prices. Preservation of confidence at home and abroad in the value of the dollar requires a balanced use of fiscal and monetary restraint.

ESTIMATED COMPARISON OF SELECTED ECONOMIC INDICATORS

	1967	1968 ¹	Percent change
FRB index (1957-59=100):			
Total.....	158	167	+6
Manufacturing.....	160	169	+6
Durable.....	164	173	+6
Nondurable.....	154	162	+5
Mining.....	123	124	+1
Utilities.....	185	197	+6
Income and expenditures (billions of dollars):			
Gross national product.....	785	850	+8
Personal consumption expenditures.....	492	526	+7
Government purchase.....	176	192	+9
Gross private domestic investment.....	112	129	+15
Net exports.....	5	4	-----
Personal consumption expenditures.....	492	526	+7
Durables.....	72	79	+10
Nondurables.....	218	229	+5
Services.....	202	218	+8
Government purchases of goods and services.....	176	192	+9
Federal.....	90	96	+7
National defense.....	73	78	+7
Other.....	17	19	+12
State and local.....	86	96	+12
Gross private domestic investment.....	112	129	+15
Fixed investment.....	107	118	+10
Nonresidential.....	83	89	+7
Structures.....	27	28	+4
Producers' durable equipment.....	56	61	+9
Residential.....	25	30	+20
Changes in business inventories.....	5	11	-----

¹ Estimated.