shown a great deal of resistance to inflation. There is an inherent anti-inflationary bias in the way the price-wage mechanism works in the United States, and it has almost sufficed; but the evidence seems to be that when employment is really good, there is an appreciable creep. If we knew it would not accelerate, this might be all right—even from the standpoint of the people who retire on fixed incomes, if interest rates are 1 percent per annum higher than otherwise, because everybody knows prices are creeping up by 1 percent per annum, this is pretty good compensation. But there is always a danger it may accelerate.

It would seem to me that there is quite an interesting list of possibilities for improving the price-wage mechanism. I have made some suggestions in the statement; and the general stress would be on trying to restrain price increases where the firms that are thinking of marking up the prices have a real alternative of producing more goods instead.

The favorable experience of the United States with price control in World War II (and also in the Korean War) testifies, I think, that many firms which are seriously interested in raising prices are also in a position where if the price rise is barred, they can put more goods on the market instead of raising the price. This is very specifically anti-inflationary. It increases our ability to raise employment without setting up inflation, and to a considerable degree get us out of policy dilemmas. This is, obviously, not easy, but it is a direction in which there definitely is room for much more effective policy than we have had. The efforts to deter price increases have concentrated entirely too much I think on areas where there was not room to increase output.

As to the tax surcharge, it seems to me that a policy of hedging our bets against uncertainty does call for the surcharge. If I had to bet with expenditures on a fixed schedule—if I had to bet as to whether the tax surcharge was or was not likely to actually pull down activity, I might bet that it would. But, it seems to me that contrary to the usual situation, we are in a position where it would be quite easy to organize a rather prompt increase in expenditures. Contrary to Mr. O'Leary, my feeling would be that nondefense expenditures really need to be expanded. In the existing situation, I can see that there has to be pressure upon them, and, in fact, we have a number of programs related to the war on poverty which are being compressed—although they are ready for expansion, and I would advocate their expansion on a number of grounds. It seems to me that if we have the tax increase, and it proves to be more than is necessary to finance the budget now in prospect, we could hedge our bets by being in a position to expand these expenditures rather rapidly—we should say, thank God, and go to it.

In ordinary circumstances, I do not think one can count on short-term flexibility of expenditures to take up the slack. But in the 1968–69 situation, it seems to me that we have this in reserve, and should be only too glad to do it.

As to the mix of monetary and fiscal policies, we have been relying, it seems to me, too much upon monetary restraint in the last few years. Within reason, one can substitute monetary restraint for fiscal restraint. As I said earlier, the theory of this is not as clear as it should be. We do not really know as much as we should about how the mechanism works. But, if you have a fiscal policy which would be too