

indeed to achieve some slack in the economy, even if you are not operating at peak capacity in terms of employment, and utilization, if you have an excessive rate of inflation, then it may very well require some even greater slack in order to alleviate that inflation, because—

Chairman PROXMIRE. Seven percent unemployment that we had in 1958?

Mr. OLSEN. No; I certainly would not assume that. I would certainly assume something a good deal less than that.

But, there is no question that inflationary expectations are a factor.

Chairman PROXMIRE. You see, it is no trick to reduce inflation by just letting the economy slow down, and increasing unemployment. The trick is, and the responsibility we have from the Congress 22 years ago, is to permit the economy to grow just as much as it possibly can, keep unemployment at a minimum rate, and slow down prices. To do that, we have to move that stubborn Phillips curve. To do that, we have to have effective wage and price policies. And this is what nobody seems to call for. Absent that we are in a position where we say—well, we have to have growing unemployment to slow down inflation; and why? Because the kind of people hit with unemployment are not up here testifying, and their representatives are not testifying, and many of them do not vote. But the people who favor restraint are outspoken, and pass over unemployment.

Mr. OLSEN. Yes. Every man who sets a price and every man who demands a wage sees that monetary expansion is running at an excessive rate, Government spending is running at a high rate, Government wages are being set at high levels. In other words, the leadership from Washington seems to suggest little concern with the inflation, and the inflation that lies ahead. And this pervades decisionmaking—even if you have some slack in the economy.

Chairman PROXMIRE. The President says this is our principal problem.

Mr. OLSEN. Yes; it is. But the inflation is here. And it is continuing.

Mr. O'LEARY. I just want to say one thing. I know you are anxious to close, and you have a session this afternoon. I would like to say I am glad that Leif made that statement, because, in my prepared statement, you will find I have stressed the fact that even though we see the economy turning down in the second half of the year, we think that the risks, generally, of escalation in Vietnam, of the consumer coming in more strongly, are on the side of a greater expansion.

Chairman PROXMIRE. Why not keep our powder dry. If we get escalation in Vietnam, then perhaps we will have to have a tax increase. And then I think the Congress would give it, and rather promptly. If you have a big escalation—obviously, you have that kind of need. But, if we have to vote on the tax increase—and unemployment is increasing, and if all the predictions are that we are going to have a weaker second half, and grow as you said, Mr. O'Leary, at a 2½ percent or 2.6 percent rate in the last half of the year—I just cannot understand, for the life of me, why we should increase taxes at that point.

Mr. O'LEARY. The only thing—

Chairman PROXMIRE. This is when we are going to vote on it.

Mr. O'LEARY. I am just as anxious as you are to have high employment and strong growth. And I would like to say something—I am