that the budget has been made obsolete by recent happenings in Vietnam and Korea. There is little that one outside Government can say on these developments except that it is dreadfully dangerous to defray facing up to their fiscal consequences. The committee could usefully urge the administration to settle doubts on this critical question at the earliest possible moment. And the committee should signify in its report that if more money is needed it will support proposals that would raise it without increasing the deficit.

(6) Urge a return to noninflationary money supply increases

This committee typically deals with monetary policy and I believe it should go on record this year to point out that, as steps are taken to move the Federal budget back to balance, the Federal Reserve System should reduce money supply increases to a rate consistent with stable costs and prices.

There is room for controversy as to what constitutes a noninflationary monetary policy, but one in which the money stock rises 7 percent a year or faster—or nearly twice that rate when time deposits are included—is clearly destined to put persistent upward pressure on costs and prices. What is called for is not an abrupt move to monetary austerity; on the contrary, all that is needed is a start back to money supply increases more nearly consistent with cost and price stability. It is not deflation, and perhaps not even disinflation, that we need; only a retreat from excessive expansionism. This will probably involve annual money stock increases closer to 3 or 4 percent than to 7 percent. I suggest that the committee give its explicit support to such a policy.

The committee can be sure that a monetary policy of this character, jointly with an expenditure limitation and a tax increase, would be interpreted abroad as a powerful assist to our balance-of-payments program. Indeed, in the absence of such policies, few here or abroad will believe that the program can work, except through increasingly restrictive direct controls and increasing recourse to essentially protectionist devices. The result would be irritation everywhere, and a higher and higher risk that heavy gold drains will resume.

(7) Propose removal of the 4¼-percent limitation on contract interest payable on long-term Federal securities

With the Federal debt rising as it is, and with interest rates as high as they are, I am amazed that this step—which is essential to give the Treasury the options it needs to manage the public debt in a noninflationary manner—appears not to be a part of the President's program. Nor do I find it mentioned in the Council's Economic Report.

Legislation on this point is needed more urgently today than ever before, and I suggest that the committee take the lead in sponsoring it.

(8) Suggest a guideline that will permit a return to wage increase-productivity improvement balance

One need not be an advocate of numerical wage guidelines, which I am not, to know we cannot operate our economy safely when labor costs are rising twice as fast as productivity is being improved. Yet, that is what is happening now, and the Economic Report says nothing better can be hoped for in 1968.

In the circumstances one might expect to find not only some firm