1965 by ad hoc efforts to treat economic disturbances which are deemed to be transitory in nature. It is the conviction, unsupported by fact, that fiscal and monetary instruments can effectively deal with these disturbances which accounts for the chaotic character of public financial policy in recent years.

The conflict between fiscal and monetary policy activism, fine tuning, or what have you, and the longer term focus of these policies is currently exemplified by the arguments concerning the temporary income tax surcharge proposal. The Nation is exhorted to adopt this measure as a means of dealing with the inflationary strains now in evidence and anticipated to strengthen this year. It is urged upon us as a means of preventing disorderly conditions in financial markets in the next several months. Surely it is not contended that failure to enact the surcharge will result in permanent disarray in these markets or perpetually rising interest rates. This marvelously versatile income tax surcharge is also needed, we are told, to overcome our balance-of-payments difficulties. Here, too, one must infer that the surcharge advocates have a temporary disturbance in mind, unless they believe that the temporary tax increase will, in some mystical way, effect a permanent remedy of our balance-of-payments problems. Finally, the surcharge is urged as a war-finance measure, to get us over the presumably temporary hump of Vietnam defense requirements.

On any one or all of these grounds, the income tax surcharge is not warranted. A temporary income tax surcharge is not likely to have any significant or predictable effect on the pace of expansion of aggregate demand this year. By the same token and for the same reasons, it is not likely to have any significant or predictable effect on the aggregate demand for financing and, therefore, on basic financial market conditions—although it might well change the composition of the total demands. By the same token, and for the same reasons, it is not likely to have any material or predictable effect on our balance-of-payments situation, though it might, on irrational grounds, affect the anticipations of foreigners holding dollar balances and alter their preferences as between dollars and gold. Nor should the surcharge be construed as a temporary war-finance measure, unless one chooses to overlook the budget realities.

On the other hand, enacting the income tax surcharge will have one clearly predictable effect. It will weaken the limited pressure now in force for constraining the ad hoc growth of Federal expenditures. It will thereby delay the day when the fundamental decision must be taken to put Federal expenditures and tax policies on an orderly long-term basis.

I should like to discuss somewhat more fully the arguments advanced in favor of the surcharge proposal before taking up an alternative approach to fiscal and monetary policy.

The income tax surcharge as a war-finance measure

In the conclusion of his 1968 Economic Report, the President observes:

> The American people are giving their sons and brothers to fight for freedom abroad. At home we must support their sacrifice by preserving a sound economy. I believe that the American people will accept the cost of doing that—by paying an extra cent of each dollar of income in taxes . . . (p. 27).