Chairman PROXMIRE. You can hardly argue that this is a permanent excess demand. Permanent for 6 months; most forecasters argue you are not going to get excess demand at the end of the year.

Mr. WESTON. Both monetary and fiscal policy have impact on the economy. You have a monetary policy that went into effect particularly in the second half of 1966 that produced the crunch of August 1966.

Chairman PROXMIRE. We always have all kinds of things.

I am saying as a matter of fact we had deficient demand from January to May and June 1967.

Mr. WESTON. Excessive demand in the first half of 1966, and deficient demand in the first part of 1967 was in response to the excess demand in the first part of 1966.

The only thing we are arguing for here is that it would have been better to have had a better mix with better monetary-fiscal policy during 1966, which would not, therefore, produce the fear of softness in 1967, which produced in action in the face of excessive demand that came upon us in the second half of 1967.

I do not think it is necessary to argue whether monetary policy is more effective than fiscal policy. I think either will work, if you appropriately measure them in terms of the environment in which they are promulgated at the time.

My point is that certainly it is true that because of the very tight monetary policy that you had dramatized in August 1966, you had an impact in early 1967.

Here again, in part because of this, you had relatively weak monetary policy in the latter half of 1967, because of the fear of producing another situation as had been, produced——

Chairman PROXMIRE. Of course, I would argue you have much too loose a monetary policy—an excessively loose monetary policy—throughout 1967. It is monetary policy that should be corrected.

Monetary policy has been so loose they have been pumping money into the economy at a 7-to-9 percent rate. So you come back and say this is an indication of excessive demand that has to be cured by fiscal policy.

Mr. WESTON. I agree. I referred to that in my presentation, both monetary and fiscal policy in the latter half of 1967 had been puny, really, in comparison to the aggregate demand situation.

The basic point is, however, that on the fiscal side, given that you are in at least one war, and given the state of international tensions, and given this in relationship to domestic programs that have already been enacted, and to which we are committed, unless Congress changes this, that the risks are all on the side of inaction, if you do not do anything about the surtax.

Chairman PROXMIRE. The fact that we are in war seems to me is a significant moral argument. But not an economic argument.

We pointed out this morning that the impact of defense now in terms of GNP is less than in 1956, less than in 1958 or 1962. In an economic sense, we are not in war economy. The war is not taking so much production out of the economy that we have to impose a tax to balance that.

It is true in World War II, and the Korean War, but it is not true at the present time.

Mr. WESTON. If you put the total budget together, as Mr. Schultze