

I challenge most emphatically this appraisal. The economy at that time was suffering from an ominous imbalance between the rate of expansion of investment in plant and equipment toward enlargement of production capabilities, and the rate of expansion of ultimate demand in the form of consumer spending and public outlays combined. I had warned, at the time of massive tax reductions in 1964, that these imbalances would be aggravated by the distorted allocation of these reductions. I pointed out in mid-1965 that this danger was in process, and subsequent developments have borne this out. I feared in mid-1965 that these imbalances would result very shortly in a period of economic stagnation, if not recession. I still think that this was likely, but for the unanticipated increase in defense spending after mid-1965, which deferred for a time, but did not avert, the economic stagnation which set in during 1966-67, and which may well afflict us again during at least a part of 1968.

But the Council misses the point that this sharp increase in defense spending saved us for a short while from the consequences of failure to observe the evolving disequilibrium. Instead, the Council says (p. 68) that "the task of stabilization was immensely complicated by the sharp increase in defense spending after mid-1965."

Proceeding from that initial error, the Council thus goes on to say (p. 69) that "the need for restraint and policy was clearly recognized in the beginning of 1966." In this connection (pp. 69-70), it cites as effective and wise measures during 1966 the rise in payroll taxes for social insurance at an annual rate of \$6 billion, the reversal of excise tax reductions, suspension of the tax investment credit, cutbacks in Federal spending, stringent limitations on net new issues by Federal agencies, and monetary restraints. It appears to me that, at this point in its analysis, the Council is proudly claiming credit for the utilization of national economic policy to help bring on a period of serious and very costly economic stagnation. The Council does not attempt to appraise how much worse the stagnation might have been, or whether it would have been converted into absolute recession, if the still-sought tax increases had been enacted by the Congress when first asked for.

Still wrong, 1967-68

Others have made similar mistakes before, but at times have learned from them. Not so the current CEA. Although hardly any recognized forecaster even now looks forward to the restoration of maximum resource use in the very near future, and although most of them expect that the second half of 1968 will be weaker than the first half of 1968 (which is no roaring boom), CEA is still plugging away for large tax increases.

Combined with this reiterated cry for higher taxes now, CEA argues once again that, if the tax increases are not granted promptly, there will be need for resort to a more restrictive monetary policy, which would evoke serious imbalances in the economy (p. 84).

Failure to resist wayward monetary policy

During the past year and even now, I have been led to suspect that CEA has recognized that large tax increases are not called for on economic or related grounds. Rather, it may be that CEA is fearful that, if the administration accepts a fiscal policy more con-