Chairman PATMAN. Now, Mr. Arthur M. Okun, Chairman of the Council of Economic Advisers. Mr. Okun, we will be glad to hear from you.

STATEMENT OF HON. ARTHUR M. OKUN, CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS

Mr. OKUN. Thank you, Mr. Chairman. In our closing days in office I can think of no more welcome opportunity for a valedictory than an appearance before this committee. As a member of the Council for 4½ years and as its Chairman during the past year, I have profited greatly from the advice, assistance, discussions, and consultation which the Joint Economic Committee has provided. The Council and the Joint Economic Committee are in a sense twin institutions on the executive and the legislative side and we have worked together effectively in promoting an unprecedented 8 years of economic expansion.

I wanted to turn my attention today to some of the tasks and problems that you people will continue to face in office and I will be observing as a private citizen in promoting a ninth year of unparalleled economic expansion for the Nation.

As 1969 begins, there is distinct evidence that the economy is moving toward improved balance. The advance of real output decelerated significantly from a 6½-percent rate early in 1968 to 4 percent by yearend. Still, a further slowdown is essential to achieve progress toward price and cost stability, to relieve pressures on our financial markets at home, and to strengthen our international trade performance.

Given the current situation and outlook, the fiscal restraint presently operating cannot be relaxed. It must be continued throughout 1969 and into 1970. Director Zwick will outline the administration's stringent program for Federal expenditures. On the revenue side an early expiration or reduction in the tax surcharge would be an unjustified and unwarranted move to fiscal stimulus in an economy that continues to need the firm hand of moderation. With the extension of the surcharge, the President's fiscal program seems well designed to meet the key objectives of providing moderation and yet avoiding excessive weakening of demand. Drastic restraint might make for somewhat faster improvement in our price performance, but only by imposing unconscionable human costs and enormous waste on the Nation.

BACKGROUND OF THE CURRENT SITUATION

To understand the current economic situation and tasks of policy, it is necessary to consider developments of the economy since the middle of 1965. At that time, we were advancing healthily in the longest and strongest peacetime expansion of our history. The subsequent upsurge in defense spending reinforced a strong advance of business investment, creating an unsustainable boom. From the second quarter of 1965 through the first quarter of 1966, the economy advanced much too rapidly. Prices and wages moved sharply upward in response to pressures of demand—particularly because of the speed at which demand was growing. Despite several measures adding to taxes and despite restraint in Federal civilian programs, fiscal policy was too stimulative