If the tax surcharge were to expire at midyear, a marked fiscal stimulus would be applied to the economy, and a renewed major acceleration of activity would be likely. The only visible alternative to that acceleration in the event of expiration of the surcharge, would be a drastic dose of monetary restraint—a remedy which we should clearly avoid. Monetary restraint could do the job of stopping any incipient boom but it could do so only by pressing unevenly on homebuilding and its credit sensitive sectors of the economy and by disturbing the flows of credit in our financial markets.

In view of this diagnosis, I believe, one can conclude that the whole Nation will benefit if Congress makes clear that a timely and favorable verdict on the extension of the surcharge will be forthcoming. Of course, if peace is achieved, if the expenditure outlook changes markedly for other reasons, or if private demand softens dramatically, the program will require review. In that event, an easing of monetary policy—we well as an adjustment of fiscal policy—could respond to the changing needs.

To meet the possible need for flexibility in fiscal policy, the President has suggested that Congress review its procedures for changing tax rates. He has suggested that, for the immediate future, it might be desirable to give the President discretion to remove the surtax in whole or in part, subject to congressional veto. For the longer run, he suggests that Congress might give the President continuing limited authority to adjust tax rates up or down as needed for stabilization purposes, again subject to congressional veto. Or, alternatively, the Congress could reform its own procedures in such a way as to assure a prompt verdict—either way—on a Presidential request for stabilizing tax legislation.

I know this committee has studied these issues long and hard over the years. I think, in light of the experience of the past 2 years, another look at this important issue is in order.

With appropriate fiscal action, we look forward to a healthy but moderate advance in 1969. For the 4th year in a row, the unemployment rate should remain below 4 percent. Real incomes should advance generally, and prosperity should be extended. We should witness a moderation of import demand, a reduction of pressures in financial markets, and gradual moderation in price and wage increases.

We cannot, however, expect rapid or dramatic improvement in the trend of prices. The price-wage spiral simply cannot be halted within a single year.

ROAD TO PRICE STABILITY

Rather, we must look toward a gradual return to reasonable price stability in a prosperous environment. This will require first and foremost, high standards of fiscal and monetary policy. But those policies cannot do the job alone. They will need to be reinforced by measures to enlist voluntary restraint in the price and wage decisions of large corporations and strong unions. They will need to be reinforced by measures to improve the structural efficiency of the economy. In chapter 3 of the Council's report, we spell out a variety of private and public actions that may help to improve the price performance of a prosperous economy. These are an agenda for exploration rather than a program of specific reforms or legislative proposals. We do want to stress that the battle against inflation must be fought on many fronts. It must include steps to improve mobility and efficiency of our labor markets,