

even relatively small immediate reductions would relieve the strain on private capital markets, and notably on the supply of funds for housing. Second, even though the immediate payoff in expenditure reductions may be small, a start on critical review of the budget is necessary to make room for tax reduction and expansion of high-priority expenditure programs later.

To achieve a continuous moderate reduction of the rate of inflation during 1969 will require an appropriate degree of monetary restraint. The last report of President Johnson's Council of Economic Advisers suggested that sometime in 1969 monetary policy might be able to "shift to a less restrictive stance." This seems to us unlikely unless the expansive forces in the private sector turn out to be significantly weaker than was indicated in the reports.

Management of stabilization policy would be assisted if the Treasury had a wider range of choice in selecting the terms of new securities to be issued. Under present law, the Treasury may not issue securities with a term in excess of 7 years with an interest rate of more than $4\frac{1}{4}$ percent, which has only meant that the Treasury could not sell long-term securities at all. It would be desirable for the administration to have a means of absorbing liquidity, by selling longer term securities. It would also be desirable to get the structure of the Federal debt into a longer average term, so that the operation of monetary policy was not inhibited by the constant presence of the Treasury in the capital markets as a borrower. In 1967 the Treasury asked Congress to raise the maximum term of securities exempt from the $4\frac{1}{4}$ -percent ceiling, which was then 5 years, to 10 years. Congress would only agree to raise the exemption to 7 years. We believe that this whole subject deserves reconsideration.

We must recognize the possibility that events will not follow the path that we now regard as desirable and feasible. The intensity of the built-in forces for inflation in the economy are difficult to predict. However, while the available instruments and knowledge do not allow us to control the upward path of the economy precisely, we are confident that a determined monetary policy and steady fiscal policy will hold variations in the course of the economy to reasonably narrow tolerances. There is, of course, the possibility that a slowing down of the economy might so puncture inflated expectations as to cause a decline which might for a time outrun the capability of economic policy to reverse it. We see no good reason for this to happen. The Government's intention to pursue a moderate and gradual course of cooling the inflation is clear. Although minor variations are inescapable, with orderly and steady management of economic policy the most reasonable expectation for real output and incomes at any time in the future is that they will be close to the path of normal growth. Still we must be prepared for the possible need to support the economy. The Government is sensitive to this possibility and ready to use the available fiscal and monetary instruments.

We must be prepared for the possibilities that will be opened up with the decline of spending for the Vietnam war when that comes. One of these would be a decline in economic activity. We do not believe that a decline is necessary and are confident that with proper advance planning the decline could be kept small and brief if it occurred at all. A program is now underway, under the direction of