Mr. McCracken. What is necessary here is a broad-based approach. As between these two I would consider a dollar's worth of lower Federal expenditures to have a greater restraining effect than a dollar's worth of increased taxes. This would also carry with it certain implications for monetary policy.

Representative Widnall. As you know, within the last 2 years we had quite a fight between the Executive and the Congress as to the use of either increased taxes or decreased spending, and we finally came out with sort of a compromise. Do you feel that the two should work side by side, and the emphasis should still be on decreasing the amount of Federal spending but also increasing taxes, if necessary, in order to balance the budget?

Mr. McCracken. We have to keep a budget where the revenues at reasonably high employment are going to cover outlays. The strategy has to be to examine very carefully the expenditure side of the budget. But given outlays, we have to have a flow of revenues which would reasonably cover them.

Representative Widnall. We have just had a statement issued covering the balance-of-payments situation that certainly is far more favorable than it has been in the past few years. Do you think that this can be continued or do you believe it is largely due to some unusual circumstance during the last year?

Mr. McCracken. We are all, of course, grateful for good news here. I think one must say, however, that the fundamental improvement in our balance of payments is not anything like what might be implied by the swing in overall position from a large deficit to a small surplus in the liquidity balance.

The thing that must be a continuing source of concern is that we don't have strength in our balance of payments on current account.

Representative Widnall. Thank you, Mr. Chairman. My time is up.

Chairman Patman. Mr. Reuss?

Representative Reuss. Thank you, Mr. Chairman.

A splendid statement, Mr. McCracken. You are off to a fine start.

On wage-price guideposts, one of the parts of your presentation with which I do not agree, the majority of the Joint Economic Committee for some years has been urging the outgoing Council of Economic Advisers that in addition to sound anti-inflationary fiscal, monetary, and debt management policies, it should use the additional weapon of wage-price guideposts, and specifically we have said "have a rather specific guidepost, work it out initially with labor and management so that they have a proprietary interest in it, and thirdly, evolve some mechanism for focusing public attention on transactions which transcend those guideposts, particularly in the concentrated industries such as steel and automobiles." We got nowhere with that except on January 17, when the outgoing Council got out its report and, sure enough, our advice was all in there. We were delighted, but then on January 20 they went out of business and now you tell us, as I guess we expected, that you disagree.

I would have just one question in addition to what you told Senator Proxmire. In your statement, you set forth the mandate of the Employment Act of 1946 as one that "calls the Government to use all of its capabilities; to achieve and maintain maximum employment."