Mr. McCracken. In my judgment, economic conditions now do make a balanced budget mandatory.

Now, as to which route. The budget is, of course, being reviewed at the present time. The first line of attack has to be on the expenditure. If, given what apparently can be done there, the retention of the surtax or some part of it is necessary in order to avoid a deficit, then we shall have to continue the surcharge.

Representative Griffiths. So you are going to have some deficit even if you retain the 10-percent surcharge.

Mr. McCracken. I would not then expect a deficit. The budget as it has been projected shows a small surplus for this year and next, but the expenditure assumptions there are currently being reviewed.

Representative Griffiths. Thank you very much, Dr. McCracken; thank you, Mr. Chairman.

Chairman Patman. Mr. Brock?

Representative Brock. Thank you, Mr. Chairman. I have enjoyed your testimony. I particularly appreciate the emphasis you seem to place on the fundamental nature of our problems as opposed to the rather superficial laying on of additional patches of the quilt, legislatively.

You mentioned, I think you stated, "to achieve a continuous, moderate rate of inflation will require an appropriate degree of monetary restraint." That is sort of a nebulous phrase, "appropriate monetary restraint." I wonder if you can be a little more specific. What are we talking about? Are we talking about the continuous expansion of the money supply at a reduced rate or are we talking about a leveling off of the money supply, at least that part of it controlled by the Federal Reserve in its activities?

Mr. McCracken. I would interpret that to be a reduced rate of expansion.

Representative Brock. I think the reason I raised the point is because several members here have talked about home building. We had a rather dramatic experience with excessive monetary restraints back in 1966 when we used monetary policy simply because the Congress and the executive branch were unwilling politically to face the necessity for fiscal restraint. We had an out of balance policy.

You emphasize throughout here the necessity of a dual approach, and it seems to me the current interest rate level would indicate that we have just about exhausted the tool of monetary restraint and must place greater reliance on fiscal policy; is that a fair statement?

Dr. McCracken. If we can—certainly no one wants a repetition of what happened in 1966 when monetary restraint was pushed too far. Also to have a proper balance we do have to have a budget which is fundamentally in balance. This is essential in order to keep the pressures in money and capital markets from driving interest rates too high.

A part of the current high interest rate levels is the repercussion effect on interest rates from the inflation which began to develop about 3 years ago. So this is the fundamental thing which has to be attacked.

I would never counsel pushing so hard on the brake pedal that the wheel would be locked.

Representative Brock. I think it is a fair analogy.