

I think if I were going to move in that direction my first inclination would be, however, to give some flexibility on both sides, both down and up. There is always the question of the extent to which the Congress would be willing to delegate the responsibility, but if I were going to go down that road my initial inclination would be to go both ways.

Representative MOORHEAD. The reality of politics is such that we might be persuaded to delegate the unpopular but we would not be so willing to delegate the opportunity to do the popular thing and there is, I believe, a good government aspect of this because there is a restraint on the President. He won't want to do the unpopular thing either and he would only raise taxes if it were really necessary.

Mr. McCRACKEN. Yes.

Representative MOORHEAD. The other way there is no constraint.

Mr. McCRACKEN. Yes; that is a good point.

Representative MOORHEAD. I would like to ask you gentlemen if you think that the fiscal policies adopted last year, and I refer particularly to the Revenue and Expenditure Control Act, have begun to make their effect felt. I cite particularly, that the rate of growth of the GNP—in instant dollars—dropped to 3.5 percent in the fourth quarter compared to a rate of 6.3 percent in the second quarter. Personal consumption dropped from a first quarter high of 10.3 percent to —.3 percent in the fourth quarter, retail sales dropped off significantly in the last quarter of the industrial production index of the Federal also indicates a cooling off.

Mr. McCRACKEN. Yes. I think last year our views on this issue were swinging over entirely too wide a range. This seems to be the age of instant cereal and we also want instant fiscal policy. We passed a tax increase on June 28, and we apparently expected to be able to read about the effects in the next day's paper.

The fact of the matter is that these things do influence the economy with a substantial lag.

If you look underneath the basic current data, there are some indications that possibly we are seeing some effect here.

Retail sales increased, seasonally adjusted in January, but still were not above the level of the third quarter, and the rise in gross national product, as you indicate, was a little less in the third quarter. These are things which one would begin to expect to show up at about this stage, given substantial tax action in mid-year.

Representative MOORHEAD. Fine. Mr. Stein, would you or, Mr. Houthakker, have you any comments on that?

Mr. STEIN. I would agree with that.

Representative MOORHEAD. You point out that the present inflation in the economy can't be corrected without some adverse effect on employment. I am trying to determine your trade-off ratio. In your statement you said that a 2.5-percent rate of unemployment was unacceptable; however, I am not sure if I understand what rate short of 2.5 percent you think is acceptable as a trade-off for stability.

This, it seems to me, is a critical issue, especially considering the social problems that are bound up in this unemployment rate. I think I recall the statistics that if the unemployment rate increases from the present 3.3 percent to 4 percent that 300,000 to 500,000 people will be out of work. I think we all have a very good idea where this impact