

In view of the fact that the two restraints for inflation, the monetary and fiscal, have different degrees of responsiveness in the time they can be applied due to the fact that monetary restraints can be applied almost instantaneously, and fiscal restraints are dragged out sometimes almost interminably, do you think there is a likelihood that we have over-compensated in monetary restraints in trying to control inflation in the past?

Mr. McCracken. As one looks at the history of this in the last several years, there is some evidence that we have overconcentrated on the one instrument. This certainly would be a reasonable inference to draw from 1966.

Senator JORDAN. In other words, if we had had some fiscal restraint perhaps a year earlier it is quite possible we wouldn't have to go so high in monetary restraints, interest rates and so on, is that what you are saying?

Mr. McCracken. Yes; if we could have had the tax increase a year earlier, we could have avoided that critical fiscal year 1968 \$25 billion deficit which certainly played a role in drawing monetary policy itself off course.

Senator JORDAN. There would be an earlier solution to the inflation problem.

Mr. McCracken. Yes. We would have had a more balanced approach.

Senator JORDAN. Doctor McCracken, do you believe that the two goals of zero inflation and full employment are possible?

Mr. McCracken. I think looking at experience we would have to say that the technology of economic policy at the present time is not up to giving us those two goals simultaneously.

Naturally we want zero inflation and we want zero unemployment, but we don't yet know how to achieve them.

Senator JORDAN. So then it is going to be a judgment matter as to how we trade one off against the other to achieve the least inflation and the fullest employment.

Mr. McCracken. Yes, and sometimes one is a more urgent and pressing matter than the other. Unemployment was a pressing matter in the early 1960's. The price level problem is urgent now.

Senator JORDAN. You made a good statement about the effects of inflation. You point out, and rightly so, that inflation hits the little fellow the hardest and the sophisticated investor is able to insulate himself against it more or less.

To what extent would you believe or would you think that inequities in our tax structure would contribute to this situation.

Mr. McCracken. That is, contribute to—

Senator JORDAN. To the fact that the little fellow gets the worst of it in inflation, the sophisticated investor in this case is better able to take care of himself.

Mr. McCracken. There are some aspects of our tax system which would tend to work in that direction. To the very small saver taking capital gains is not as valuable as to more affluent people. One could think of illustrations like that, yes.

Senator JORDAN. About 20 years ago the lower 20 percent of the people receiving incomes in the United States received less than 4 percent of the total income, and those in the upper 20 percent received