I am old-fashioned enough in my economics to believe that fiscal policy has a large influence on the level of GNP. And, in particular, the surtax as well as the level of budget expenditures matter in today's outlook. In contrast to so many remarks we have been hearing, I believe the evidence since the passage of the surtax shows that it has been important in slowing the economy. The right place to look for surtax effects is in consumer spending. And over the last 5 or 6 months, retail sales have not moved up at all.

An early announcement that the surtax will be extended would be useful, not only through its possible effects on consumer demands, but through its desirable influence on inflationary expectations. It might help avoid a substantial disintermediation in financial markets which would once again seriously depress the residential construction industry. Generally, I favor flexibility and believe it is desirable to keep policy options open. But in this case. the probability that the Government will want to extend the surtax next summer seems high enough and the advantages to an early announcement significant enough, that a prompt call for full extension is warranted now.

With inflation recently accelerating, our foreign trade surplus virtually gone, and the average unemployment rate at 3.3 percent, economists today are as nearly unanimous as they will ever be in calling for some slowdown from recent rates of GNP growth. When it comes to how much of a slowdown will be needed to achieve any given improvement in the inflation record and how extended a slowdown policy should aim for, differences begin to appear.

The policy of trying to slow inflation gradually and over an extended period that was outlined in their testimony by the President's Council of Economic Advisers seems easily the best approach to take at this time. I am not an optimist on the inflation problem. I do not think it will slow down quickly, so I hope the Government is patient in pursuing its policy of gradual adjustment. And while we can improve on the most recent record, we may, in the end, still have to tolerate a noticeable degree of inflation if we are to maintain high employment in the longer run. This outcome is made more likely to the extent that the potential evils of something like the old guidepost policy are thought to outweigh its possible benefits—a conclusion that is hard either to verify or to refute—so that we take no new initiatives on these lines. Other policies that can help, particularly those directed at manpower training and labor market problems, have become less controversial. They seem to be limited mainly by our ability to agree on the details of implementing and administering them and, more fundamentally, by our willingness to pay for them on a large enough scale. Desirable as they may be, I doubt that they can fully reconcile low unemployment with price stability, and especially doubt that they can be counted on for much help in the near-term transition from present inflation rates.

While stabilization policy thus may have to take higher unemployment as the cure for today's inflation, steps can be taken to minimize the costs of taking the cure. Even a modest rise in unemployment has substantial costs for many individuals. As the Council showed in its testimony, when the average unemployment rate fell 14 percent during the past year, from a (seasonally unadjusted) rate of 3.7 to 3.2 percent between the fourth quarters of 1967 and 1968, the unemployment