Armed Forces and defense-related activities. He attributes a good part of this current inflation to the growing demand on their part with no compensating civilian production. Do you think that is accurate?

Mr. PERRY. I wouldn't think very much of our inflation stems from the specific source of the increased demand. You could reach the same situation by increasing demands elsewhere. The fact that these demands came from war-related industries is of secondary importance.

Senator PERCY. Dr. Suits, last week Dr. McCracken laid out his plan for combating inflation—a gradual and persistent reduction of inflation with hopefully little impact on unemployment. Is this how you would approach the problem and do you assess it the same way? It would seem to be that from your testimony you see a much closer correlation between stopping inflation and resulting unemployment.

Mr. SUITS. I believe, Senator, that if we are to operate on the level of merely slowing the economy down by global controls whether by monetary policy, tighter money, or by tax policy, but on some overall level, then, as one businessman put it to me, you can't slow it down without slowing it down, and this means not only slower prices but it also means slower employment.

In my view, if we take a gradual approach to slowing the economy down, it will gradually slow down. We will gradually get less inflation, and we will gradually get more unemployment. This is a serious, and can be a tragic situation for us particularly at the present time, and I think it would behoove us to think very carefully about applying direct countermeasures to meet the problem of the people who are going to be affected sooner or later.

Now you mentioned the minimum wage. One step we might take—I am not necessarily advocating this as a policy measure but merely while we are discussing these questions, to suggest something that might be done—we could retain or even perhaps increase the minimum wage, and then counterbalance this effect by some kind of payment, recoupment, tax recovery or other device to firms in exchange for hiring and training these people.

Senator PERCY. In other words, give them a subsidy.

Mr. SUITS. Indeed.

Senator PERCY. And the subsidy would represent the difference between the actual productivity of the person and the minimum wage.

Mr. SUITS. Indeed.

Senator PERCY. And maybe the subsidy would be scaled down over a period of months as the worker's productivity increases?

Mr. SUITS. Indeed, exactly.

Senator PERCY. I couldn't agree with you more. It just so happens I put in a bill last year to do just that.

Dr. Williams, do you feel a steadier growth in the money supply over the past several years would have been a major contribution to economic stabilization?

Mr. WILLIAMS. Well, I think, with hindsight one might—if he had it to do over—not increase the money supply as fast as it was, perhaps at two stages, in 1967 and again in the summer and fall of 1968, when the fear of fiscal overkill was widely held, especially at the Fed, where recently they changed their minds completely.