But really, I would rather not focus on the money supply. I think that credit availability and interest rates are the important factors and I certainly would not advocate any rule for regularly increasing the money supply at a given percentage rate.

Senator PERCY. Would you care to comment however, on what the growth of money supply in 1969 should be taking into account your own forecasts?

Mr. WILLIAMS. I have not made any calculations on the increase of money supply. I just don't know what it would be.

Senator PERCY. You wouldn't want to comment on what you feel would be best for this year?

Mr. WILLIAMS. I think what would be best for this year would be the fiscal and monetary policies that I have outlined. Continuing the surtax so that a more flexible monetary policy could be continued, so that interest rates would not be any higher than they are now hopefully, and hopefully a little less. I think this is of particular importance in the housing industry. Again just what that means as to the level of money supply, I don't know.

Senator PERCY. Dr. Klein, I am sorry that I do not recall whether you forecast a surplus or a deficit in the budget with the figures that you are using.

Mr. KLEIN. On the national income accounts definition.

Senator PERCY. A deficit?

Mr. KLEIN. Yes.

Senator PERCY. Could I ask this question and then you can comment any way you want?

Mr. KLEIN. Yes.

Senator PERCY. How important do you think it would be psychologically, for us to have a small surplus as against a small deficit or a large deficit, of course, in combating the problem of inflation? In other words, based on your predictions would you say to the Director of the Budget "Do something to reduce the budget." Is that correct? How important would it be that we take action and cut some expenses or bring some new revenue in to give us the surplus that we are hopefully looking forward to?

Mr. KLEIN. Well, first, on just the passive prediction aspect, my calculation is for the national income accounts definition of the deficit or surplus. After midyear the figures that are to be in the national income accounts, that are seasonally adjusted at annual rates, will show a swing over to a deficit from the surplus that will come in the first 6 months and, as I stated in my opening remarks, the reasons for this are a somewhat slower income base and growth rate in my projections generating less revenue, the higher benefits that would have to be paid out of transfers in a slower economy, and the higher interest payments that will have to be made under the high interest rates.

Now, I think I would agree that you can never do harm by showing surplus in terms of combating inflationary psychology.

I think this would have a good effect. Here I think that we have a curious problem that we economists always face of having a trade-off. The question is whether you want t ohave good news from a surplus or whether you want to have the consequences on the economy that a surplus would entail.