

spending or taxes or both so as to bring the total of public and private demands within these bounds. The method of temporary income tax change selected by Congress to stabilize the economy should be easy to initiate, easy to understand, and easy to administer, and it should not substantially alter the tax structure.

Experience with the use of tax changes for economic stabilization purposes demonstrates that such action often needs to be taken more expeditiously than the usual congressional procedures have permitted. There should, therefore, be a consensus not only about the form of the tax change and the economy's need for it, but also a mechanism for obtaining timely action.

The basic role of monetary policy in a broad program of economic stabilization should be to create and preserve an environment in which expectations of monetary developments are themselves stable. This requires a close coordination in the use of monetary and fiscal policies. Major failures in fiscal policy cannot be successfully offset by monetary measures. Experience has demonstrated that fiscal and monetary measures cannot be effective when used in substantially conflicting ways. This philosophy implies a restrained use of the basic monetary instruments consistent with long-run objectives, avoiding drastic short-run changes in monetary postures.

Given this general introduction to our policy statement it should be clear that there are many parts of the Report of the Council of Economic Advisers with which we heartily agree. The report's emphasis on the need to restrain inflation and the necessity of both fiscal and monetary restraint are most appropriate. We especially agree that some more efficient procedures must be established within the Congress as well as within the executive to assure that the level of Federal expenditures and tax rates are such as to keep the levels of demand within the country's potential to produce at stable prices. We agree with the report that this requires congressional review of the proposed budget as a whole as well as the need for a prompt mechanism to enable the executive to propose and the Congress to enact tax changes.

AGGREGATE DEMAND, EMPLOYMENT, AND INFLATION

We are pleased to concur with the report's conclusion that excessive levels of demand leading to inflation produce little permanent decline in unemployment. As is suggested by the behavior of unemployment in the 1961–1965 period, when output was below our capacity to produce, raising demand resulted in a marked decline in unemployment. Further increases in demand and unanticipated increases in prices brought some temporary further increase in employment and output. As the acceleration in prices became more obvious, however, the increases in employment became much less pronounced and the wage rates demanded by workers accelerated.

We now find ourselves in the position where business and labor feel inflation is likely to persist and are making price and wage decisions in this anticipation. The task before the country is to slow down the growth in total demand so that the rate of price increase gradually diminishes and anticipations of inflation are adjusted downward. We agree with the report that this must be a gradual process. Given these existing inflationary anticipations, if aggregate demand were sub-