stantially reduced in an attempt to eradicate the inflationary anticipations quickly, unemployment is likely to jump substantially. Excessive slowing of the growth in demand and a sharp reduction in prices will generate unnecessary temporary unemployment until price expectations are gradually brought into line with the new reality of relative price stability. A more gradual reduction in the growth in demand and a more gradual reduction in the rate of price increase is consistent with little increase in unemployment.

We would like to accentuate more than does the Council's Report, however, our belief that the elimination of the inflationary expectations must be persistent and complete as well as gradual. If gradual action means that inflationary expectations are not reduced sufficiently by the end of calendar 1969, then aggregate demand policy in 1970 must be consistent with a continued reduction in such expectations to the point of elimination.

In this regard we are concerned about two features of the report. First, while the report is not precise about the pattern of economic activity throughout calendar 1969, it does suggest that real output will be accelerating toward the end of the year. It also suggests that the price level will still be increasing at a rate inconsistent with reasonable price stability. Should an acceleration of the economy arrest the decline in the rate of price increase before something close to relative price stability is achieved, we shall not have achieved the primary objective of eliminating the inflationary anticipations. To embark on a path of gradual reduction in the rate of price increase is better than pursuing a policy of sharp deceleration of demands *only if* the policy of gradually reducing demand is pursued long enough to achieve its objective. There is no assurance that a gradual reduction in the rate of price inflation in 1969 followed by an increase in price inflation in 1970 would be more in our interests than a substantial reduction in the rate of growth of demand in 1969. If we are to achieve our objectives for price stability we must take positive action to assure aggregate demands in the years 1969 *and* 1970 are consistent with decelerating prices.

Given this need for persistent and complete elimination of the inflation and inflationary expectations, we agree with the report's conclusion that the proper fiscal policy for fiscal year 1970 would be one that would yield a surplus in the Federal budget. It is mandatory, therefore, that planned Federal expenditures be reviewed closely in a search for opportunities to cut spending. Unless ways are found to reduce planned expenditures by a sufficient amount, it will be necessary, as the report recommends, to extend the income tax surcharge through fiscal year 1970 if a budget surplus is to be achieved.

Second, the report suggests that business and labor must make *sacrifices* in their price and wage decisions to assist the economy in achieving price stability. We think this is an ineffective approach to price stability. If the Government pursues actions to bring about price deceleration and if credit policies lead business and labor to anticipate a reduction in the rate of inflation they will in their own self-interest set prices and wages consistent with this deceleration; in this sense there need be *no* sacrifices. Wages and prices will have been set in the expectation of decelerating prices and such a deceleration will have occurred. There will only be sacrifices if business and labor make