employment budget surplus. A supplementary concept is the concept of full employment money supply.

But there is also the danger of underreacting and the perverse effects of fixed policy rules. In an interview with the *New York Times* McCracken explained that for domestic policy purposes he would define the full employment surplus as a condition under which at full employment the net budget balance fluctuates between a deficit of $2 billion and a surplus of $2 billion. But because of our international payments situation, he prefers a concept under which the net balance fluctuates between 0 and +$2 billion. And he adds: "I think there would be a great therapy to be had from our running a surplus for a while. It doesn't have to be a large one." (*New York Times*, January 24, 1969.)

McCracken does not define full employment but presumably he means 4-percent unemployment since he considers that the present unemployment level represents over-full employment, and that unemployment has to be raised. Since he is anxious to maintain a surplus, he will be likely to estimate the surplus at the 4-percent level conservatively, which would mean that the budget would be balanced at an unemployment level in excess of 4 percent. Given our lack of precise knowledge and McCracken's tendency to be conservative, the unemployment level at which the budget will be balanced might very well be 5 percent or more.

Since he is afraid of overreacting, and does not believe in responding to every wiggle of the statistics, then if he does make a mistake, and allows unemployment to go higher than he had planned, there will be a lag before he will be sufficiently convinced of his mistake to recommend a change in economic policy. Then there will be a further lag, probably one of several months, before Congress can be relied on to approve the necessary changes in fiscal policy, either by increased spending appropriations or by reducing taxation. And finally, there will be a still further lag before such changes can have an impact on the economy. By that time, what was originally intended to be a mere slowing down of the economy may very well have developed into a full-scale recession.

The Experience of Others

Restricting economic growth is not necessarily an effective method and is certainly not a necessary method of preventing or controlling inflation. This is borne out by the recent experience of two other free world countries, Canada and West Germany.

THE CANADIAN EXPERIENCE

Early in 1966 the Government of Canada began to fear the onset of inflationary pressures, and undertook to counter them by the process of economic restraint. A number of measures were taken in the budget produced in March 1966, for the fiscal year beginning May 1, 1966, which were aimed directly at slowing the rate of public and private spending and investment. Income tax rates, which had been cut in 1964, were restored to close to the previous level. A special refundable tax was imposed on corporation profits and depreciation and depletion allowances which in effect constitute a forced loan from business. Special tax provisions for accelerated depreciation on a wide variety of