"1. Today, as they did 10 years ago, the great majority of American people express wishes and desires for consumer goods. This is true in all income groups. Those who do not express such wishes are most commonly old * * * or poor * * *. The proportion having no wishes and desires has not increased in the last 10 years. Being well stocked with goods, or having made large expenditures recently, does not make for 'needlessness.'

"2. The kinds of things desired have changed substantially in the postwar period. Desires for summer houses, boats, travel, and various hobby expenditures have increased in frequency. At the same time, desires for automobiles have not diminished in frequency (partly as the result of an increase in desires for second cars). Because people have a great many wants and desires, they feel they must economize and shop carefully. (There was, therefore, a change in the kind of automobile desired.)" [1]

The evidence suggests to me that the problem is a shortage of purchasing power. Since the low quarter of 1961 private incomes after taxes (disposable personal income plus corporate profits after taxes) have increased $32.7 billion but private demand for output has increased $39.5 billion. Thus private demand has increased $1.21 for each dollar increase in private incomes after taxes. This is less than the $1.32 in the corresponding period after 1958, or the $1.54 after 1954, but it is still true that in the five quarters following the low point last year private demand for goods and services has increased more rapidly than incomes after taxes.

To some a shortage of purchasing power is synonymous with the need to accelerate the rise in wage rates. This approach would, of course, be self-defeating because it would also raise costs of production and, therefore, prices. And if the price line were held, the resulting deterioration in profits would give us a more acute case of the economic anemia we were trying to cure. On this our experience of the last several years is quite clear. The fact that costs per unit of output rose more rapidly than prices after the mid-1950's, with the consequent sharp decline in profits per unit of output, unquestionably played a major role in the sluggish performance of the economy in that period.

TABLE III.—*Indexes of corporate income and output in manufacturing*

[1955=100]

Year	Output	Employment costs	Profits	Per unit of output: Employment costs	Per unit of output: Profits
(1)	(2)	(3)	(4)	(5)	(6)
1955	100.0	100.0	100.0	100.0	100.0
1956	102.9	107.9	94.0	105.0	91.5
1957	103.3	112.9	91.6	109.0	88.7
1958	96.5	108.9	73.2	112.8	75.9
1959	109.0	119.0	101.5	109.1	93.2
1960	112.0	123.5	96.0	110.1	85.6
1961	112.5	124.0	94.0	110.1	83.5

Source: Column (2), Federal Reserve Index; columns (3) and (4), basic data from Department of Commerce; column (5), column 3 divided by column 2; column (6), column 4 divided by column 2.

It is, I think, increasingly clear that the economic policies of Government have been making a substantial contribution to the economy's shortage of purchasing power in recent years. At times the monetary authorities clearly have stepped too hard on the brake pedal, e.g., in 1957 and again in 1959. It is equally clear, however, that monetary policy has not impeded economic expansion for roughly 2½ years. The reserve position of the banks has been easy. Commercial banks are eager to expand their loans, in contrast to the "loaned-up" banking sentiment in the tight-reserve eras of 1957 and 1959. Bank credit has increased 8½ percent in the last year. Reflecting this, interest rates (contrary to the expectation of many experienced market observers early this year) have remained relatively low. Bond yields are only slightly above those at the low point of the recession early last year. Whatever quarrels we may have with

[1] George Katona, Charles A. Lininger, James N. Morgan, and Eva Mueller, "1961 Survey of Consumer Finances" (University of Michigan, Survey Research Center, 1962), p. 98.