percent in the past year. The spurt should not be read as a major jump in wage rates. Much of this large gain comes from reduced unemployment, steadier work, job upgrading, and the big jump of employment in high-wage manufacturing industries. But the extra 10 percent is there to be spent by American workers.

Much the same performance has occurred in other forms of income—dividends, interest income, farm income per farm, and corporate profits all show increases ranging from 8 to 11 percent over the past year. The benefits of social security liberalization and medicare to older citizens are partly reflected in the 17-percent increase in Federal transfer payments over the last 12 months. Even after all the proper adjustments to these figures for the 2-percent increase in our population and labor force and the 3½-percent increase in consumer prices, it is terribly hard to turn this record into a sad story.

The price performance of recent months, moreover, has begun to reflect our more moderate pace of economic advance. The index of industrial wholesale prices (1957–59=100) stood at 105.2 in both July and August; it was 105.1 in September. It is rightly said that a large change in 1 month does not make a trend, and it follows that no change for two monthly intervals does not make a plateau. But it is welcome news. Indeed, in September, selected types of machinery and building materials were outstanding as the only manufactured items showing strong upward price movements. International trade data may also be showing some encouraging signs; the balance has not been on a deteriorating trend since April and it may actually be turning around.

Defense and Economic Policy

The brief review of the past year reveals a number of ways in which the defense buildup has complicated the problems of managing economic policy. In particular, the sharp spurt of demand which the defense buildup triggered off late last year and early this year had serious impacts on prices. In the absence of added defense outlays, we would not have sprinted up to and beyond the 4-percent unemployment line. Many of the strains on supplies would not have arisen if we had reached the same levels of utilization on a more gradual upward movement. Supply does not adjust instantaneously; a spurt in demand therefore pushes up prices and order backlogs. Overtime, however, supplies do respond and can catch up with demand even while the demands are still growing. We have seen the responsiveness of supplies in certain basic raw materials and metals. In many types of skilled labor, too, supplies have been expanded through time-consuming recruitment and training programs.

A second complication of the defense buildup arises because my profession's skills and knowledge are imperfect. It is particularly difficult to diagnose the psychological impact of a changing defense outlook on business expectations and decision-making. An imperfect diagnosis of this issue was a key reason why economists—inside and outside of Government—underestimated the strength of demand at the start of this year. As of January, the administration recognized that demand was very strong; but we did not realize just how potent and dynamic it was, especially in the business investment areas.

The defense buildup required important shifts of resources among industries. But this task was handled primarily by our flexible