The need for voluntary cooperation from labor and management in their price and wage decisions is also best viewed as part of the normal problems of prosperity. The basic dilemma of reconciling high employment with price stability will persist in peacetime. The most effective and wisest use of monetary and fiscal policies cannot make it vanish. Indeed, the self-discipline of business and labor will determine just how restrictive monetary and fiscal policies have to be to sustain steady noninflationary growth. Enlightened private decisions can help make the path of full employment safe and stable, and can permit a larger total of real incomes to be divided between workers and business owners.

The key current problem for the guideposts stems from the recent increases in food and service prices, which have accounted for the major part of our rise in consumer prices. The Nation is now asking the industrial sector whether owners and workers, in combination, will show the restraint to absorb these costs, as they can do without serious sacrifice. To be sure of success in moving back toward price stability, the Nation cannot afford to have the increases in the prices of food and services built into the structure of industrial costs and prices.

Conclusion

It should be clear that the increase in the defense budget of the past year did not make our prosperity. Nor did it break our prosperity. If we must, we can live with and adjust to growing defense requirements. We can even adjust to them without tightening our belts absolutely over time. The growth of our productive capacity makes possible an extra $30 billion of real GNP (apart from any price changes) in the year ahead. We can clearly pay for defense out of that growth and still have more resources left to meet the urgent needs of the civilian economy.

We can certainly live even more happily without a growing defense budget. Naturally, we would all welcome an honorable peace in southeast Asia for reasons that extend far beyond the economic realm. In addition, there would be important economic benefits to be reaped from the enlarged growth of both private and public civilian spending that would become possible if defense outlays should decline. Both the Congress and the administration would welcome the opportunity to terminate our temporary taxes, to remove some of the restraint from high priority nondefense programs, and to declare new "fiscal dividends" in the form of tax rate reductions.

Wherever the defense budget has to go, it is safe to predict that we will have problems in managing prosperity. But anyone who would label these problems insuperable has simply not read the economic record of recent years.