

a period of rising costs. Again, there is the tendency to work such inventories off not by cutting back production which will then at a later stage replace those inventories at higher costs but rather to maintain production and have the inventories worked off as final demand grows at less than an accelerating rate.

I think these two aspects of the inventory data are part of the reason why there has been a relative employment stability, virtually no increase in the unemployment rate, while the FRB index of industrial production has been declining somewhat.

I think the other partial explanation for the relative employment stability is the increased training content of workers and hence the reluctance to separate workers from the work force and then go through the task of retraining. It is these kinds of characteristics of the data that make an analysis of current economic series, including leading economic indicators, not completely persuasive in one direction or the other.

The other paradox is that the FRB index, as I indicated, has been down but long-term interest rates are already at higher levels than experienced during the severe credit crunch of August 1966. Yet the Fed in recent months has been pursuing a comparatively easy money policy. The explanation is that, in fear of a credit crunch in the fall, corporations are going to the long-term bond markets in very huge droves—and, incidentally, not calling on the commercial banking system. The rate of expansion in commercial bank loans is down so that that, as an indicator, is taken as softness. The tremendous calls on the capital markets, the long-term bond markets, are indicators of strength. When interpreted in any meaningful context it has quite a different significance than what you would get from a mechanistic interpretation.

In view of the increased difficulty of interpreting the economic statistics, I would argue for bringing into view again proposals that were made several years ago that have been relatively neglected in recent discussions and I should like to restate the consideration for a shift in some aspects of taxing authority.

The policy prescription here recommended rests upon a fundamental distinction in responsibility for tax policy. When the structure of our tax system is to be changed, this is clearly a prerogative of the Congress. As is proper, the procedures necessarily call for prolonged hearings before the House Ways and Means Committee and then similar hearings before the Senate Finance Committee. This is a process which, by its very nature, involves several months of discussions, deliberations, and analysis. When we consider a change in the tax structure, we are essentially concerned with the equity, redistribution, and differential incentive effects of our tax system.

But, of course, our tax system also has an important role to perform in contributing to economic growth and stability. In performing this role the essence is speed and prompt anticipation of or reaction to economic developments. The nature of the relationships between the behavior of economic statistics and economic principles and economic forces suggests that the reaction time in Federal Government policy be shortened. One important way to achieve this would be through granting to the Executive Office of the President the power to impose a positive or negative surcharge within some range, perhaps up to plus 10 percent or minus 10 percent of tax levels at any particular time.