tested and challenged our own views against the bearish opinions held by a small minority of the profession.

Frankly, I find it hard to make sense of a diagnosis of persistent sluggishness over the coming year. To accept it, one has to believe either that inventory investment will plunge into sustained and massive liquidation or that growth of final sales will slow down abruptly in the months ahead.

Such a forecast seems clearly at odds with the evidence I have presented on inventories, retail sales, homebuilding, investment plans, and orders. It also flies in the face of a number of facts I have omitted—such as the recent pickup in employment, the acceleration of personal income gains, and the advance of construction contracts.

In short, there is nothing to suggest that a powerful fiscal stimulus is called for in order to support healthy economic growth. On the contrary, the maintenance of such a stimulus is most likely to undermine our prospects for balanced prosperity.

THE PROSPECT FOR PRICES

With a tax increase, growth of production in the coming months would not place serious strain on our productive resources. But even under these conditions the general price level will continue to rise in response to inflationary forces which were set in motion during the rapid expansion of late 1965 and early 1966.

Wage demands of both organized and unorganized workers have been spurred by the cost-of-living increases of the past 2 years. And while labor markets are not as tight as last year, there are still shortages of well qualified workers in many occupations.

These are particularly marked in medical care and other professional services, construction, and repair and maintenance services. The recent temporary decline in manufacturing employment has been more than offset by the continued rapid expansion of employment in trade, services, finance, and government—especially State and local.

Under these pressures average hourly compensation in the private nonfarm economy rose at an annual rate of over 6 percent in the first 6 months of 1967—far exceeding the normal increase in labor productivity. The recent pattern of union settlements has been around 5 percent a year.

Even with unemployment rates remaining around the 3¾-percent level of the past year and a half, we can expect a gradual relaxation of wage pressures. The mobility of our labor force and the expanded public and private training programs are better adapting the effective supply of labor to the demand.

Productivity gains will be larger as the rate of production accelerates.

Nevertheless, unit labor costs will surely increase during the coming year. With expanding demand, most employers will find it possible to raise prices to compensate for higher costs. The price level will continue to rise, though somewhat more slowly than last year.

But the more rapid rise in demand that would occur without a tax increase would sharply accelerate the rate of price increase. New pressures on raw materials supplies, new shortages of labor, and renewed tightness in capacity utilization would add a new surge of price increases on top of those already in prospect. Responsible public policy cannot permit this to happen.