

Would you develop that theme to a degree of why you disagree with the presentation given the committee earlier?

Dr. MADDEN. Yes, I would be glad to. Briefly the difference of view rests on two factors, the timing of the upturn in the economy, how fast it is coming, and, second, how strong it will be in the private sector in forthcoming months.

With regard to timing, it has been the position of the average business economist throughout 1967 that the inventory readjustment would take somewhat longer, a quarter or two longer, than the administration suggested in the Council of Economic Advisers economic report to the President.

Second, there is the view among business economists that business investment spending is likely to rise slower than the administration's economists suggest or imply. They don't state specifically, but suggest or imply, and the reason for this in the eyes of business economists is that profits have declined during this rolling readjustment of the first half of this year and this decline in profits when combined with rising unit labor costs in many industries is likely to produce more caution on the part of business decisionmakers in the field of business investment spending than the administration suggests.

Mr. SCHNEEBELI. Dr. Madden, I think the administration said that the business resurgence would be quite vibrant during the third and fourth quarters of this year. We are almost finished with two-thirds of the third quarter and is there any evidence of any substantial rise during July and August that would indicate support for their thesis?

Dr. MADDEN. In my judgment there are indications that the upturn is beginning, but these indications are not as strong as the administration suggests and implies.

Mr. SCHNEEBELI. And how much slower do you think this resurgence is than has been explained to us by the administration? They say the third and fourth quarter. What are you referring to in your interpretation of this resurgence, the fourth quarter, the first quarter of next year or what specifically?

Dr. MADDEN. Well, I think this is the area of uncertainty which this committee should probe with great care and I don't profess to have a specific and ironclad answer to that question, but I would say that there is some doubt in my mind as to what the effect is going to be on consumer intentions to buy of the proposed 10-percent surcharge itself.

I question how that will affect consumer confidence in retail sales of business, first. Number two, I question the impact on business investment spending plans of the surcharge proposal itself. I believe that housing is going to be rising slower than anticipated because of the return of interest rates to the high levels, a 45-year record level of last year in the housing market.

Therefore, I can only say that in my judgment there is a question whether this upturn may not move slower than the administration suggests and less strongly.

Mr. SCHNEEBELI. Well, let's grant that it may be nebulous at the present time. Is it apt to be a little more clear by October 1?

Dr. MADDEN. I think that it is apt to be more clear, yes, by October 1 at the time of the traditional fall season in business which may extend a little beyond October 1, but certainly we will know more on October 1 about this than we know now. There is no question.