

Mr. ACKLEY. Certainly we are not isolated from the Defense Department. And the Bureau of the Budget—with which we participate in our forecasting and policy analysis—is about as well informed as anyone can be of the expenditure plans of the Defense Department. We ourselves are frequently directly in touch with Defense on this matter.

The problem last year was not a failure of communication. It was the nature of the situation which prevented the Defense Department itself from making solid estimates, because of the very rapid pace of the buildup and because of the uncertainty of the situation. I really do not think the problem was one of communication but rather of the difficulty of the Defense Department itself a year ago knowing what the nature and cost of the Vietnam war would be.

Representative RUMSFELD. I am curious to know if you think it is conceivable that the administration, not wanting to telegraph an anticipated and intended diplomatic or military move, might base economic policy on stated assumptions that were not actually intended, planned, or anticipated.

Mr. ACKLEY. I suppose that situation could conceivably arise. It has not arisen so far as I know in my tenure at the Council of Economic Advisers.

Representative RUMSFELD. Turning to another subject, would you say from hindsight that the Federal Reserve's decision to increase the discount rate in December of 1965 was as bad as was expressed at the time by the administration?

Mr. ACKLEY. I think one has to distinguish carefully the nature of the administration's complaint about the December 5 move on the discount rates. It was our feeling then, and I think it remains our feeling, that it would have been better if the Federal Reserve could have waited until the end of December or early January. At that time we could have made coordinated fiscal and monetary policy decisions on the basis of then somewhat better information on budget expenditures. There would have been an opportunity for us to consider together what kinds of tax proposals the President might wish to make in his January message.

Certainly there is no quarrel with the fact that developments in late 1965 and prospects for 1966—particularly after we had received, in early December, the forecast of plant and equipment expenditures from Commerce—made clear that additional restraint on the economy was required.

Representative RUMSFELD. You do not disagree so much with the announcement as you do with the timing and absence of opportunity for the administration to take steps?

Mr. ACKLEY. That is correct.

Representative RUMSFELD. Turning to the question of the guidelines briefly, you indicated that the administration would like to see wage increases held to run parallel with increases of productivity, and I certainly concur in that. But then you go on, and I believe I am quoting you accurately, you say we just cannot expect that.

Why is this? Is the country on notice that labor unions are planning to push wage increases this year beyond the levels of productivity?

Mr. ACKLEY. I think we are in effect on notice, yes. We are on notice if nothing else from the fact that a number of important set-