

On the other hand, if developments go the other way, we might simply let it expire; or—conceivably—if inflationary forces continue strong, we might even propose the further extension of the suspension.

But it is one of the instruments of flexibility in our policy that we have very much in mind.

Senator PERCY. Thank you.

Chairman PROXMIER. Thank you, Senator Percy.

Apropos of the investment credit, I think you recognize the time bomb it represents to many of our industries because if it would expire on the specific date of January 1, it makes it very difficult to invest in plant and equipment in September, October, November, December of next year. People in the machine tool industry say they might as well take a vacation, because after all, if you are buying—say an airline is buying \$500 million worth of jets, they kiss off \$35 million in profits by making that investment in September or October thereby losing \$35 million in tax credit they could pick up by waiting until January 1.

A very ingenious suggestion came to me from a constituent of mine, Mr. Randall, from the Kearney & Trecker Corp., that you should renew the investment credit at the rate of 1 percent a month, beginning say, June 1st or July 1st. In this way you solve your problem. You will retard investment to some extent, but at the same time, because you phase into it, there would not be any big gap that would result in layoffs and serious economic dislocations at the end of the year.

Let me get into a couple of things here before we conclude. I do think that in view of the responses, which were very honest and sincere, that it is clear that there was a very serious blunder made in the estimates on Vietnam; the cost of the Vietnam war. I would think that this committee would have a deep obligation to find out whether or not the reason for that blunder has been corrected.

I know that you cannot tell us, but I think that we should go to the Defense Department and find out, and I hope we do that.

I hope that you also have words with the Secretary of Defense, if you have not had them already, because the Joint Economic Committee staff tells me that while you were too low in your 1967 GNP estimate, and while, as you say, you did not predict the GNP for the current year accurately, if the Vietnam figure had been accurate, you would have hit it right on the nose on the basis of the multiplier which they apply.

So, this would make the Council look very good this year.

I am delighted at the sentiments almost every member here have expressed on wage-price guidelines. And I would like to ask you some questions about that now that have not been raised so far.

The Council of Economic Advisers, Mr. Heller, and yourself, have been eloquent defenders of this principle. You indicated it is very important to maintain price stability, that indeed it is in a sense the cornerstone. It is particularly useful, however—correct me if I am wrong on this—it is particularly useful in a period where you have cost-push inflation where demand is moderate, but where there is a situation where wages are pressing against prices and pushing them up.