and then taking them out to the sea and scuttling them, it would have precisely the same economic effect if we were not spending that $22 billion on Ho Chi Minh. We would have a higher employment rate.

Mr. SCHULTZE. Except for one point, and that is, the rate at which the increases had to occur because of the speed of the buildup in Vietnam. It is not just the level of what you do; it is the rate at which you get to it.

In turn, that has a very important impact on the rate of inventory accumulation, for example. As a consequence, you will find, as you know, from the economic indicators in the report, that in the fourth quarter of 1966, inventory accumulation was up in the $15 billion neighborhood. That is obviously unsustainable. It almost surely will come down. This means that in the first half of the calendar year 1967, that will obviously have a negative effect on the economy.

If you look beyond that, at our fiscal projections, you will find that the NIA budget at full employment approaches and moves along in balance. Now, as to whether it is actually going to work that way, I can't say that it is going to hit that exactly. It is our best estimate that it will.

But I think that you have got to bring into your equation not just the levels of what is happening but the rate at which it is happening and how this affects temporarily the movements of the economy.

Representative REUSS. May I interrupt again to say that in view of the fact that if we have all been so wildly wrong in the last few years on our projections, wouldn't it be a good idea to give serious consideration to my thesis and to ask us also whether our income-price-profit pattern is not badly out of whack?

This, you know, is what Karl Marx always used to say about capitalism, and I am very anxious to prove him wrong. I think the best way to prove him wrong is to make sure that we do have enough purchasing power and investing power in the economy in each period to take off the market the products that we produce so John say's law does not work. It does not work if you do not automatically get it off the market.

Mr. SCHULTZE. I would make a couple of points on this. I, of course, can't sit here and say that the income distribution as between functional shares, for example, is completely right.

I think, on the other hand, if you put it in the long-term perspective for the last 20 or 25 years, you will find that the large expansion in profits, in profit margins, since 1961, the largest part—not all of it, but the largest part of it—simply returned them to about the normal relationship.

Now, in 1966 they were higher somewhat than what is normal, but as the Council's report points out, there may be a little——

Representative REUSS. You are saying in effect Democratic economics is more sensible than Republican economics, and I agree with you, but the question is: Is it good enough?

Mr. SCHULTZE. I had not thought I said that, but I am willing to accept it.

Representative REUSS. Is it good enough?

Mr. SCHULTZE. I guess, Mr. Reuss, I would have to say that while I can't argue that the income distribution is perfect for long range stable growth, I think I would have to say I see no evidences that it is so badly out of whack that there is a major problem.