Let me now turn from these basic and longrun considerations to the question of how an increase of income taxes, such as the President has recommended, would affect economic activity this year. The argument of the Council of Economic Advisers appears to be that the private economy may be moving ahead "too rapidly" in the second half of the year and that the "President's tax program will be moderating the advance."

This is sheer conjecture. Neither the Council's ability in forecasting, nor that of other competent economists, is sufficiently good to attempt such delicate, pinpoint prediction.

The Council has itself recognized that there are forces that may make for sluggish private demand in the first half of this year. In my judgment, doubts about the short-term economic outlook extend beyond the next few months.

The economy is now full of crosscurrents. On the one hand, the aerospace and machinery industries are continuing to boom. On the other hand, the homebuilding industry is experiencing serious depression. There is also noticeable weakness in the building materials trades, in the automobile industry, in the appliance trades, in the steel industry, and in the textile-apparel-leather sector. The curve of total industrial production has flattened out. In the first quarter of last year, the production index rose about 3 percent, in the second quarter 2 percent, in the third quarter only 1 percent. In the last few months the index has not risen at all.

Price trends have also become mixed. Consumer prices are continuing to rise at a disconcerting pace. On the other hand, wholesale prices of farm products and industrial materials have weakened, while the rate of advance of prices of finish industrial products has appreciably slackened.

Meanwhile, the advance in wages has accelerated. Lately, the rate of increase of output per manhour in the economy at large has not only slowed down, but has fallen below the rate of increase of wages per hour. Hence, the labor cost per unit of output, which was so remarkably steady in recent years, is now rising.

Precise measurements of this ominous development do not exist; but the available data suggest that unit labor costs are now 3 or 4 percent higher than a year ago. As a result of the divergence in industrial prices and production costs, corporate profit margins have been shrinking during the past 9 to 12 months. More recently, total corporate profits have begun to slip.

With the scope of economic expansion narrowing, with labor costs rising, with profit margins shrinking, with construction costs high and running well above investor's estimates, with interest rates on business loans still relatively high, with the stimulus of the investment tax credit suspended, and with the business and investing mood gradually becoming less exuberant, powerful forces are now operating to restrain business investment. New investment commitments appear to be waning. Of late, anticipatory indicators of business capital expenditures, such as the formation of new firms, orders for machinery and equipment, commercial and industrial construction contracts, and new capital appropriations, have all been displaying some weakness.

Other branches of private investment also lack vigor at present. In many industries, manufacturing and distributing firms feel a need