reach the same conclusion. In the past couple of years, in 1965 through much of 1966, the inflation seemed to originate from supply and demand factors, and largely outside the industrial sector of the economy, in the food and in the service area. This was a reflection, I think, of supply and demand in those sectors of the economy. It looks as though that phase of inflation is about over, especially if the economy has the weight of adjusting to the several negative factors that I mentioned.

The strength of markets isn't going to put inflationary pressure on consumer prices generally. But the inflationary pressure is quite likely to come this year from the cost side, the cost-push side, which is a quite different situation. When there is a heavy upward pressure on costs, what usually happens, and what I think is likely to happen in this year, is that part of the increased cost gets passed on in higher prices. Part of it has to be absorbed in profit margins. This reduction of profit margins is something that is just as bad as the inflation, because the reduction in profit margins is a thing that prevents you from realizing your objectives as far as employment is concerned. A part of it will be reflected in higher prices. But you are not going to stop that sort of cost-push inflation by increased taxes. I think you are likely to make it worse, because the tax increase is itself an increase in costs.

Furthermore, the tax increase on individuals is likely to increase their efforts to get wage increases that would compensate them for the increase in taxation. That would again add to the cost pressures during the year. Thus we don't see that the tax increase during the year is going to be a very effective way of controlling inflation during the year.

Now, I would like also to look at fiscal policy from a broader perspective. Has the course of fiscal policy, the growth of Government expenditures in the past few years, really reflected the priorities of the American people?

This is a very difficult subject to talk on. I can find no formula that says such-and-such is the proper level for Government expenditure; that some given figure is the proper percentage of the national income that should be taken by the Government and channeled through Government for the purposes of Government.

Obviously, that percentage is not going to be zero; there are things that have to be done by Government. Obviously, it's not going to be 100 percent; we still want to preserve a generally individualistic society. Thus you have the question: Where do you put the level of Government spending? As I said, I can find no way of deriving a formula for answering this question. It has to come down to a matter of what are the priorities of the American people. They have their own personal desires that they expect to satisfy through the part of the national income that is left to them after taxes. They have certain collective desires that they want the Government to pursue for them.

I can't reduce it to a formula, but I can show you some figures. They are in table 3 at the end of the study, which I think corrects some misapprehensions. They lead me to draw at least the prima facie conclusion that what has happened in recent years can't possibly represent a genuine appraisal of what the American people want in