

likewise to accept the guidepost rules pertaining to prices, the trade off between unemployment and inflation would have been reduced to very favorable terms.

Following the rapid widening of profit margins and increases in the income share of profits in recent years, labor is sure to feel that some redress in its favor is in order. Speaking in terms of economics rather than equity, this proposition is questionable. Income shares, like the budget surplus, must be viewed at full employment. Below full employment, profits as well as Government revenues are below their normal proportions.

But in any event, the price rise of 1966 makes it unrealistic to ask labor to abide by a 3.2 percent standard. It is wise that the guideposts were not denatured by escalating them to some arbitrary figure without economic content. More general forms of counseling voluntary restraint, both to labor and to business, will have to be employed by the Government.

We cannot expect labor to accept the 3.2-percent guidepost realistically in a year in which the cost of living rose by 3.3 percent. This raises the question whether we should have moved to a higher guidepost. My view is no, because it would have obscured the economic truth underlying the guideposts without gaining, I think, very much, because the guideposts are not a powerful tool to prevent wage increases when demand is high.

With respect to the future, however, the possibility should be examined of making the guideposts more operational. A tax penalty could be imposed upon corporations that exceed the wage guideposts. This would make implementation of the guideposts depend on market factors, not on official suasion. Firms that could make more money by exceeding them would be free to offer higher wage increases. Since the tax would be paid by business, it would seem legitimate to apply it to violations of the wage guideposts alone, without attempting the administratively prohibitive job of applying it also to the price guideposts.

BUDGET INFORMATION AND ANALYSIS

It is urgent to prevent a recurrence of the events of 1966, by now familiar, that led to the underestimate of the defense impact. Both the magnitude of spending, and its duration, were inadequately reflected in the Council's forecasts. The NIA budget presentation, moreover, which is the principal basis of fiscal analysis, failed to reflect properly the impact of the defense buildup. It showed as increases in business inventories what actually was the processing of Government defense orders. The consequences are known.

This year's shift to almost exclusive emphasis on the NIA budget deserves to be viewed with skepticism. The NIA budget clearly is superior to the administrative budget as an analytical device. But its recent record of partial failure, together with the fact that the shift in emphasis is being made in a year when the administrative budget shows an embarrassingly large deficit, argues against acceptance of the NIA budget as our principal fiscal statement. Considerably more study of the pros and cons is needed before a decision can be made on this subject.