

President could declare certain industries as crucial for economic growth and price stability. Then the price-wage-productivity board might establish special committees to spell out what the general guideposts mean for these industries. Fact-finding reports of such special committees would be submitted to the President, who, after consultation with the Council, could, if he feels it necessary, pass the reports on to the Congress. A subcommittee of the Joint Economic Committee could then examine the interpretation of the guideposts for specific cases, the actions taken by business and labor, and in extreme cases may recommend legislative measures. I recognize why the President would hesitate to set up a mechanism which by some might be misinterpreted as edging in on price and wage controls. To avoid this misinterpretation would require an educational effort which should not be an impossible task.

This particular recommendation, which is in line with the proposals that have been repeatedly recommended by leaders of the National Planning Association for many years, might not be the best possible solution. I feel, however, that the dropping of the numerical wage guidepost necessarily appears as a retreat, just at a time when, for a large number of workers, contracts are coming up for negotiation, and when cost-push inflation might become critical under conditions of a weakening economy. An arrangement such as I have proposed, spelling out the principles stated in the Report, would not weaken—it might even strengthen—a policy designed to give where necessary a voice to the general interest in the determination of prices and wages.

IN CONCLUSION

As far as I know, every witness from Government or private life appearing before this Committee has emphasized that we are in a situation of great uncertainty both for political and economic reasons. In such a situation it is hazardous to determine a definite course of action for a time any distance in the future. It is much more important, I believe, to make arrangements for policies which permit a prompt response to conditions as they unfold. I have discussed from this aspect the recommendations for the surcharge on the income tax, the relaxation of credit restraint, and price-wage policy. We are moving at present at a very high level of economic activity, and we need to be ready to deal with recessionary developments and inflationary developments, either from the demand side or from the cost side. And we also have to have plans ready for the case of prolonged war or, hopefully, for the case of a settlement or de-escalation of the war in Vietnam.

APPENDIX

TABLE 1.—Federal budget, national income accounts

[Billions of dollars, annual rate]

	Calendar years						Increase		
	1965—		1966—		1967—		1966 II over 1966 I	1967 I over 1966 II	1967 II over 1967 I
	I	II	I	II	I	II ¹			
Federal expenditures (total).....	119.9	126.6	135.3	148.8	158.4	166.6	13.5	9.6	8.2
Purchase of goods and services.....	65.0	68.6	72.9	80.7	86.5	90.1	7.8	5.8	3.6
National Defense ²	48.6	51.6	55.9	63.7	68.9	71.3	7.8	5.2	2.4
Transfer payments.....	31.1	33.8	35.1	38.0	41.6	45.9	2.9	3.6	4.3
Grants to State and local government.....	11.0	11.3	13.8	15.3	14.3	15.9	1.5	-1.0	1.6
Net interest paid.....	8.6	8.8	9.4	9.8	10.2	10.4	.4	.4	.2
Subsidies, net.....	4.2	4.1	4.1	5.0	5.8	4.3	.9	.8	-1.5
Federal receipts ³	124.5	125.3	138.5	146.3	153.4	159.3	7.8	7.1	5.9
Surplus (+) or deficit (-).....	+4.6	-1.3	+3.2	-2.5	-5.0	-7.3	-5.7	-2.5	-2.3

¹ Assumes steady increase over fiscal year 1968.

² Allows for adjustment factor consistent with national defense expenditures in national income accounts budget.

³ Excludes receipts from proposed income tax surcharge.

Source: "Economic Indicators," January 1967.