

Chairman PROXMIRE. Thank you, Dr. Backman, for a very provocative and stimulating paper, and one that finds me in disagreement on many scores, although I must say you have made a very powerful case for your position.

There are a number of contradictions that appear here and I am sure that you can straighten many of them out. You make a strong case for a "tired" economy, and I think I can document that case in a couple of minutes here even more, not only a tired economy, but the kind of economy that seems to be close to a degree of price stabilization in the last few months.

I would point out to you, for example, that as you say, wholesale prices have been stable since October at 106.2 percent of the 1957-59 average. The Consumer Price Index went up from 114.5 in October to 114.6 in November to 114.7 in December, and then remained stable at 114.7 in January, so that that is most encouraging.

We had a dropoff in new orders for durable goods from \$25.3 to \$22.7 billion at an annual rate, in the most recent figure in January. We have had an increase at the same time, as you said, but a very, very sharp increase in manufacturers' inventories at exactly the same time when we have this dropoff in new orders.

We have a continued deterioration in new construction. It was \$72 billion in September; it is now down to \$69 billion. We have a dropoff in steel production though it has stabilized somewhat in the last couple of weeks, but it has stabilized at a substantially lower level than it was which is not encouraging for a dynamic, growing economy such as ours.

We have a sharp dropoff in the hours of work from 45.1 hours in September to 40.9 hours in January. We have a stabilization of unemployment that some people think is a satisfactory rate though I don't, and I think many other people don't regard 3.7 percent, 3 million people out of work, as satisfying, especially with all the emphasis we are trying to put on manpower training.

We have a very much slowed down rate of increase in manufacturer's investment in plant and equipment, which I think you point to. And we have a decrease in corporate profits, which I think is one that should concern us very much.

You put all these things together, and you find that there are almost no indicators that are pointing the other way, and you come in and tell us what we need is a tax increase, and restraint in fiscal and monetary policy as the solution for what you say is likely to be a cost-push situation in wages. I am puzzled as to this kind of conclusion.

Mr. BACKMAN. The question is not unexpected. Let me see if I can clarify my position. We have gone through a period now of about 30 years in which "compensatory fiscal policy" has been emphasized. I must confess that for many years I have been defining "compensatory fiscal policy" as a policy under which you spend more than you take in in bad times but in good times you spend more than you take in.

I think we have to look at the general level of the economy. We are talking about an economy in 1967 which the Council in my judgment mistakenly expects to average \$787 billion. Even if we reduce this estimate by \$10 billion, it is still a rather significant increase over last year. It is not an economy that has moved or is moving downward.