

mittee and in the Council's report, inflation has been and continues to be a major problem for the U.S. economy. The Consumer Price Index is frequently used in labor contracts embodying a "cost-of-living" escalator. Moreover, this index reflects the movements in the prices of many of the products bought by the vast majority of wage-earners, and thus has substantial impact on wage bargains beyond those in which it enters directly. Since about one-fifth of the total index is comprised of farm products, any artificial increases in agricultural prices can put pressure on wages and costs.

Five years ago the CED issued a statement entitled "An Adaptive Program for Agriculture" which outlined the directions in which the farm support programs ought to move. The objectives of that statement and to a considerable extent the directions of subsequent government policy, were: (1) to cushion the income decline resulting from a proposed movement toward lower levels of price supports, and (2) to encourage voluntary acreage reductions in specified crops so that the then existing excess stocks could be moved into the market.

As we enter 1967 we find conditions in agriculture radically altered, partially as a result of the success of those programs. Farm income is the highest in years and the income per farm is at an all-time high. Dairy surpluses are gone, and the Department of Agriculture has requested an expansion of the production of wheat and feed grains, the prices of which are well above the support levels.

Despite this sharp change in agricultural conditions the proposed budget for price and income supports includes much of the same income supplements that were designed to reduce output and deal with low farm prices. Payments designed to induce acreage reduction and bolster income when wheat prices were low and large surpluses existed are being continued when output expansion is requested and market prices are almost 30 percent above the support level.

We estimate that \$1 billion could be cut from the provisions in the budget for expenditures on wheat certificates, feed grains and cotton diversion payments, and price supports for feed grains and vegetable oils.

THE BALANCE OF PAYMENTS

In its chapter on "Growth and Balance in the World Economy" the economic report expresses many points which are similar to those expressed in the recent CED policy statement, "The Dollar and the World Monetary System." There are two important differences in emphasis between these documents which deserve comment. Our stress on the critical importance to our balance-of-payments position of the pursuit of a stabilizing budget policy appears to be different from that of the Council.

In addition we feel that, since there is no precise way to determine the optimal allocation of capital between domestic and foreign investment, free capital markets will insure a better allocation than any controlled system. Thus we believe that the increased controls now being imposed on capital movements are undesirable. The capital account is merely one part of a set of interrelated accounts. To seek to use inhibitions on capital exports as the device to secure balance-of-payments equilibrium is likely to be a shortsighted policy.