

desired equilibrium has occurred because of a very serious and persistent distortion in the patterns of incomes and spendings. These distortions certainly lend no support to the Council's statement (p. 45) that "the years 1961-65 had been characterized by a remarkably balanced expansion among the various sectors * * * business fixed investment, though rising rapidly in 1964-65, was geared appropriately to the expansion of markets * * *"

This cheery statement cannot be reconciled with almost universal recognition, and recognition even in earlier CEA reports, that the investment boom in late 1964 and 1965 was inordinant and nonsustainable. It is not consistent with the call for the suspension of the investment tax credit in 1966. It is not consistent with the serious excess of personal savings over gross domestic investment which emerged by 1967, to which the Council calls attention (p. 48).

My own studies, presented to this committee and elsewhere, have for years been underscoring these serious disequilibriums, which have not been redressed. From 1961 to 1967, total national production, measured in uniform dollars, rose only 34.6 percent, private consumer spending only 33.3 percent, Government outlays for goods and services only 37.9 percent, and transfer payments only 45.5 percent, while private investment in plant and equipment rose 63.5 percent. Underlying these distortions, wages and salaries rose only 38.4 percent, labor income only 39.6 percent, and farm proprietors' net income only 5 percent, while corporate profits rose 43.7 percent, personal dividend income 51 percent, and personal interest income 70 percent.

The shrinkage of the economic growth rate to only 2.5 percent in real terms during 1967 was responsive to these disequilibriums, but did not cure them. Of course, in reaction to previous excesses, the growth rates in private investment in plant and equipment and in corporate profits were slightly negative in 1967. Even so, aggregate profits, and certainly per unit profits, were at least ample to generate whatever levels of business investment might be justified by trends in ultimate demand. As of now, plants in general are operating somewhere in the neighborhood of 85 percent of rated capacity, which is far too low.

Meanwhile, private consumer spending rose only 2.8 percent in real terms in 1967, which was egregiously below the requirements for equilibrium at maximum resource use. The savings rate above 7 percent during 1967 did not indicate a sufficiency of private consumer income in the aggregate; it merely indicated in part the reaction to the relatively excessive investment boom during previous years, and in part an unsatisfactory distribution of total consumer income, aggravated by recent fiscal and monetary policies and by the low economic growth rate itself (see my chart 3). (The inadequate trends in consumer spending and incomes, and the unsatisfactory income distribution, are illustrated more specifically in my charts 4, 5, and 6).

CEA's bias with respect to wage trends

The failure of the Council to develop an adequate equilibrium analysis is nowhere more manifest than in its treatment of the whole problem of wages during recent years, especially in connection with the price-wage guidelines. Faced with the rather chronic problem of inadequate expansion of wage rates and wage buying-power to play their