

CONTRIBUTION TOWARD IMBALANCE

The Council's negative wage policy contributed to an imbalance as between income from employment and income from property. (This imbalance was compounded by the tax reduction of 1964 which favored corporations and the wealthy, liberalized depreciation treatment, and the investment tax credit.) As a result, profits (and corporate and upper bracket family savings) soared. The sharp increase in profits stimulated and financed an unsustainable investment boom. When matters threatened to get out of hand, monetary policy intervened to put on the brakes with drastic adverse effects upon growth and upon high-priority spending for housing and by State and local governments. The inflationary spiral had gathered momentum, however, and the Council now calls for the blunt instrument of a tax surcharge to slow it down.

DEFECTS OF AGGREGATIVE APPROACH

The distortions and imbalances that have led the Council to urge negative and restrictive policies are in large part the result of the blunt instrument approach to guidance of the economy. Monetary and fiscal measures have been framed, advocated, and applied primarily on the basis of their effects on the level of total demand and the size of total GNP. The Council has tended to be concerned mainly with how much was being produced without paying enough attention to what was being produced, for what purpose it was being used, and who was getting it.

When, as in the early 1960's, expansion was the goal, the main policy instrument was a tax cut—without too much concern as to the distribution of the benefits. As already noted, corporations and families in the upper income brackets got the lion's share both of the tax cut and other tax changes. When, partly as a result of the nature of those tax measures, investment began to get out of hand and the price level began to rise, the blunt instrument of monetary policy was brought into play by the Federal Reserve Board. When tight money plunged housing into a depression, hampered State and local governments in fulfillment of their obligations, threatened to strangle many small businesses, and began to stifle growth—without accomplishing very much in the way of retarding price increases—the Council responded with advocacy of another blunt instrument. According to both last year's and this year's reports, an across-the-board tax surcharge is the sovereign remedy for what ails the economy.

What is forgotten in the concern with aggregates—total demand and total GNP—is that distortions and imbalances can accompany either a planned step-up or a planned slow-down of the overall rate of growth. Balanced growth and, in particular, protection of the priority areas of the economy, requires attention to the composition as well as the total of demand and GNP.

A long list could be made of the distortions, imbalances, and setbacks to priorities resulting from inattention to the composition of demand, while gross monetary and fiscal policies were applied in an effort to manipulate the total. The following are a few examples.

DISTORTIONS OF INCOME DISTRIBUTION

A major imbalance has resulted from the distortion of the income distribution which has favored property incomes at the expense of