labor incomes and has favored wealthy individuals and big corporations at the expense of those with small and moderate means.

Department of Commerce data show that, between the second quarter of 1960—the peak of the last previous expansionary period—and the third quarter of 1967, employee compensation in private industry rose by 55.9 percent. But in the same period corporate profits after taxes rose by 69.4 percent, dividends rose by 73.3 percent, and personal interest income surged upward by 102.2 percent. As we pointed out in making a similar comparison for this committee a year ago, the discrepancy was even greater for the period from the second quarter of 1960 to the second quarter of 1966, because subsequently the pressure of rising living costs finally forced wages up at a faster pace. In addition, the business slowdown of 1967, a consequence of the imbalances which had developed in the economy, resulted in some drop in profits.

DISTORTION IN RESOURCE ALLOCATION

The distortion in income distribution has led in turn to imbalances in the allocation of resources. Typically, increases in incomes of those with small or moderate means go primarily into increased consumer spending. Wealthy individuals, on the other hand, already have sufficient income to meet their personal needs, and corporations do not engage in consumer spending at all—if you except expense account spending and similar indulgences extended to top executives. Thus, increased incomes of wealthy individuals and corporations primarily go to increased investment, both at home and abroad, or into speculation or savings, neither of which add to the stream of job-creating demand.

This is not to say that investment is not *per se* as economically useful and necessary as consumer spending; of course it is. But the two must be kept in balance in order to provide market outlets for additions to supply resulting from investment. It is no coincidence that, as a result of failure to achieve balance, our economy repeatedly suffers from the chills and fevers of insufficient consumer spending not adequately offset by Government spending and unsustainable booms in investment and inventory speculation which collapse into recession. The overall results have been slower growth than we should have enjoyed; higher and longer lasting unemployment than we should have suffered; and substantial underutilization of our productive capacity.

As the year 1967 began, we had just emerged from 3 years during which business fixed investment grew twice as fast as GNP, and an unprecedented rise in business inventories. A collapse was avoided (although we did go through what has come to be called a mini-recession); but rates of capacity utilization fell sharply; and unemployment was on the rise during the first 10 months of the year. Now, although capacity utilization is still low and many workers still idle, the Council, anticipating a repetition of the old familiar pattern, feels it necessary to advocate a tax surcharge to head off a new, unsustainable burst of business spending on plant, equipment, and inventories.

BALANCE-OF-PAYMENTS EFFECTS

Not all of the excessive income siphoned off into corporate treasuries and upper bracket family accumulations during the past 7 years has gone into domestic investment. In recent years there has been a