

Since there is no fixed relationship or "trade-off" between unemployment and inflation, the Council cannot predict the effects on it of the increasing stability of the price level. While on the one hand, the growth of the service-producing sector should help reduce the incidence of unemployment, on the other hand, it may contribute an inflationary force in the economy. Productivity gains, as we measure them, are low in some of the service-producing industries, while wage gains are among the highest.

*Question 3. The previous Council of Economic Advisers maintained in their last Annual Report that excessive demand was a "well balanced excess" in 1968, and not attributable to any one sector. Do you agree with this?*

*If so, doesn't this mean that any program placing the burden for restraint on one sector of the economy relative to others, such as repealing the investment tax credit, would be unfair and unwise?*

Answer. We do not find the concept of a "well balanced excess" of demand helpful. It is true that the main components of demand increased more or less in proportion during the year, but this tells us little about whether one sector was leading and the others closely following. Neither does it tell us whether the division of total demand was well balanced in the sense of being sustainable or in the sense of conforming to national objectives. With respect to sustainability several points might be noted. The rate of inventory accumulation in the fourth quarter of the year was higher than is likely to be sustained for long. The rate of imports was probably unsustainably high relative to exports. The ratio of Federal spending to the gross national product was made sustainable only by a temporary tax surcharge. Whether the distribution of the total produce was well balanced with reference to national objectives is of course a matter of judgment. Certainly opinion could be found that it was not.

For the future it seems to us desirable to restrain demand in as general and neutral a manner as possible, allowing free market choices to determine the allocation of the restraint except where clear conflicts with national objectives are involved. We do not think that repealing the investment credit would be wise. If the repeal were permanent it would remove a stimulus to economic growth that the country can well use in the longrun. If the repeal were not permanent, there would be a temporary effect on investment spending; but its timing and amount would be hard to predict (with some evidence to suggest that it might have disappointing short-run results). We do not think that initiating such a disturbance would be consistent with the gradually decelerating course we should like to follow.

*Question 4. In your statement, you note, "The rapid flowering of new manpower programs in recent years . . . has created an unmanageable system." What is your reaction to consolidating the many separate programs into a comprehensive Federal manpower program, administered and funded by a single Federal agency?*

Answer. The Council supports the position that a comprehensive manpower program should be developed by the Department of Labor. It should be "designed to make centrally available to the unemployed and the underemployed a full range of Federal job-training and placement services. Toward this end, it is essential that the many Federal manpower programs be integrated and coordinated."

The following answers to later questions from Senator Miller were subsequently submitted for the record by the Council of Economic Advisers:

*Question 1. Reference page 28 of testimony, line 15. Does this refer to the "unified budget"? If so, would it not be preferable to refer to the "operating budget"?*

Answer. The relevant sentence in our statement is: "Our view of the outlook and goal for 1969 implies the need for continuation of a budget whose expenditures are at least matched by the revenues from the tax system (assuming reasonably full employment)." The reference is to the unified budget. We believe that for the subject there being discussed, namely the effect of Federal finances on the whole economy, the unified budget is the best single measure. The main difference between the unified budget and the operating (administrative) budget is that the former includes, while the latter excludes, social security contributions and benefit payments. These contributions and payments have effects on the level