the civilian economy is concerned, yet adds to demand; that has been one of the reasons we have had the inflationary problem.

Senator MILLER. The thing that troubles me about that is that we have been operating under a deficit for a number of years. And if the money being spent for the war had gone somewhere else, we could have absorbed that 2½ million—implying that we would perhaps have to have a deficit anyhow. I trust that the new administration is going to seek to absorb these people when and if this war comes to an end without having to run up deficits all over again and aggravate the inflation condition. That is your objective; is it not?

Secretary SHULTZ. Certainly our objective is to use the tools of fiscal and monetary policy in a coordinated way that will yield us high employment, and we hope without excessive rates of increase in prices.

Senator MILLER. There is a limit to what fiscal and monetary policy can do. And we certainly have to rely upon private industry for the absorption of most of these problems; don't we?

Secretary SHULTZ. Yes, sir. What we are aiming at is the creation of a general environment through fiscal and monetary policy that brings about employment on private jobs, not just putting people on public jobs.

Senator MILLER. So your point is that the savings from the war costs, when those stop, would not necessarily be translated into hiring another 600,000 people on the Federal payroll or another 2 million on the Federal payroll, but to provide an environment for private industry to absorb these people?

Secretary SHULTZ. There are all sorts of ways to deal with the so-called fiscal dividend and the savings that would come if we can get ourselves into a more peaceful situation in the world. Among those ways is a reduction in taxes. Not all the ways involve additional spending.

Senator MILLER. Now, you testified that there has been a 7½-percent average hourly compensation increase: of that, 3.3 percent represents increased productivity, so that there is a differential of 4.2 percent. Now, I am troubled about the increasing amount of imports coming itno this country. Our exports have been going up a little bit, but the imports have been coming in here at a far faster rate.

I know that in some of the countries overseas that are trading partners there has been some inflation, in some years higher than our inflation. But because of the low-wage base they can better afford to increase their wage rates to keep pace with the higher rates of inflation in their country and be more competitive than we are, than we can be with increases to a high wage base to keep pace with a low rate of inflation. I have done a little calculating on this, and it looks like we have been slipping further and further behind in absolute increases of wages.

For example, in 1967 our wage rate went up 12 cents an hour to keep pace with a relatively low rate of inflation. In some of these European countries, on an absolute basis, wages only went up 4 or 6 cents an hour, although they had a higher rate of inflation than we did.

Now, does not this inflation have a serious impact on our relative competitive position, aggravating imports as far as our import situation is concerned?