

We think that these kinds of factors, involving a fine balance in the flow of goods and incomes in the economy, will have to become a focal point in the "fine tuning" of fiscal and monetary policy.

For example, a considerable portion of the high profits for 1968 are going to go back into investment, adding additional fuel to an already overheated economy. We noted earlier that the old Council contemplates a considerable increase in business fixed investment for 1969. A substantial portion of such investment will be in response to 1968's notable increase in purchases of consumer durables—which were not very strong in 1967, and may not be again in 1969. Indeed, some of the buying of durables in 1968 may well have been in response to anticipated price increases during 1969.

Increasingly, the economy is becoming consumer oriented—as might be expected in an affluent society. An additional measure of this may be found in the increase in the percentage of consumer expenditures which go for the purchase of services—which was around 37½ percent of disposable personal income in 1967 and 1968, 37 percent on the average from 1959 to 1966, and only 34 percent on the average over the period 1956 to 1958. In addition, new investment in plant and equipment has an increasing tendency to be capital saving, as well as laborsaving, and its increased productivity is going to have to be thoroughly distributed, or the time will come when all the products will not be purchased back.

These shifts in our economic situation appear to dictate some of the elements of a policy which may be pursued in an effort that may be called fine tuning.

In the past, economists have said that the major problem in achieving full employment without inflation was to balance aggregate monetary demand and aggregate supply. A critical factor is held to be the balancing of decisions to invest with decisions to save. This is because investment has always been regarded as the volatile element in aggregate demand. Indeed, if the proportion of consumer savings from the national income had not been inordinately large in 1967, we might have had more inflation that year.

Generally, Government policy to influence investment has been direct monetary policy or indirect fiscal policy. That is to say, Government has sought to influence investment decisions through the monetary mechanism and interest rates, directly. Indirectly, it has sought to influence investment decisions by increasing or decreasing spendable incomes through fiscal policy.

The difficulty with the latter policy, in the present circumstances, is that fiscal policy is a general onslaught against all spending. The requirements of "fine tuning" do not seem to permit this. Consumer expenditures are increasingly critical to stability in the economy. It is increasingly clear that high profits heavily outweigh the influence of interest rates in investment decisions. While consumer expenditures as a proportion of the GNP have fluctuated from something over 64 percent to something under, gross private domestic investment has fluctuated from 13.83 percent in 1961 to 16.56 percent in 1966—and suffered for it somewhat in 1967.

As the basis of a high proportion of incomes, consumer expenditures are heavily dependent upon wages and salaries, in order that goods and services for profit can be "cleared from the shelves" without