

ately adequate though not optimum economic growth to stagnation and then recession occurred when the failure of ultimate demand as I have defined it (or, even more pertinently, the private incomes and public spending which underlie ultimate demand) to keep up with the investment in plant equipment which is primarily responsible for our increasing capabilities to produce became abundantly visible.

From the time of the advent of the "New Economics" in early 1961, I continued my studies along these same lines. Well before 1966, I pointed out that the same type of disequilibrium augured the very sharply reduced average annual rate of real economic growth during 1966-68. In fact, my opposition to the massive tax reductions of 1964 and some subsequent tax concessions was based upon the proposition that, while these would stimulate the economy for a time, they were in the longer-run so enormously misdirected that they would bring on another period of serious economic stagnation, and *increase inflationary manifestations to boot*.

It is true that the "New Economists" and the CEA reports at times, but almost entirely as a matter of hindsight, observed that investment in plant and equipment was advancing relatively too rapidly to be sustainable, and advocated such measures as the suspension of the investment tax credit. But later on they advocated its reinstitution, and I could never understand why, because this contributed further to the economic disequilibrium. I shall deal further in detail with these tax or fiscal policies later on in my statement.

Factual anatomy of the economic disequilibrium

An examination of relative trends in various key sectors of the economy illustrates rather dramatically how the economic disequilibrium made itself manifest, and indeed was aggravated by key policies and programs. From 1961 to 1968, measured in constant dollars, total national production grew 42.2 percent, private consumer spending grew 39.6 percent, and government outlays for goods and services at all levels grew 50.1 percent.

Private business investment (including net foreign) grew 42.3 percent, but this reflected home construction on the average far below our priority needs. Private investment in plant and equipment, and this is the indicative figure, grew 65.7 percent. The disequilibrium in income flows was roughly compatible. Wages and salaries grew 45.5 percent, total labor income including fringe benefits grew 51.2 percent, and farm proprietor net income grew only 3.1 percent, while corporate profits and inventory value adjustment grew 55.4 percent, personal dividend income grew 58 percent, and personal interest income grew 84.9 percent.

The rampant profit inflation

It is equally important to look at the trends during 1967-68 alone. First, of all, the disparities indicated in the previous paragraph were even greater during 1961-67, but were "corrected" somewhat by what happened from 1967 to 1968. But what were the nature of these corrections? The main correction was that private investment in plant and equipment shrunk to an annual growth rate of only 1.0 percent. That is far too low. However, this happened just because of the disequilibrium created by the relatively excessive advance of this type of investment for a number of years. This is one of the most striking illustra-