

pects for meeting growing public needs, the rejuvenation of our chronically depressed regions, the capacity of our economy to adapt smoothly to the expansion of our international trade, all of these are linked to the goal of maximum employment. As President Kennedy said in his Economic Report for 1962:

A full employment economy provides opportunities for useful and satisfying work. It rewards enterprise with profit. It generates saving for the future and transforms it into productive investment. It opens doors for the unskilled and underprivileged and closes them against want and frustration. The conquest of unemployment is not the sole end of economic policy, but it is surely an indispensable beginning.

DEVELOPMENTS IN THE FIRST HALF OF 1962

At the end of 1961, the rise of GNP in three quarters of recovery had exceeded the upswing from the low point of GNP in the comparable periods of the preceding two recoveries. While certain factors were weaker than in 1954-55 and 1958-59, others were stronger, leading to an expectation that the economy would continue upward at a relatively strong pace in 1962.

Nevertheless, on the basis of past experience, the growth during 1962 was projected to be more modest than in the recovery quarters of 1961. What I am saying is that the \$570 billion estimate of GNP that was used as the underpinning to the budget projections actually represented a slower rate of recovery in 1962 than in 1961. The shift from inventory liquidation to restocking that follows a recession normally yields large gains in the early stages of recovery. Some slowdown in the rate of advance must be expected as the expansion continues. But the change of pace was sharper than anticipated—in the three quarters of recovery in 1961 GNP advanced at an annual rate of nearly \$13 billion per quarter; its increases in 1962 were only \$6.4 billion in the first quarter and \$7.0 billion in the second. Apart from statistical adjustments resulting from the revision of 1961 date, actual GNP in the second quarter, at \$552 billion, ran at least \$10 billion below projections.

This disappointing outcome is virtually all traceable to investment in plant and equipment and inventories. In relation to income, consumer buying has held up relatively well; housing is now close to its predicted flight path after an erratic dip in the first quarter; exports are slightly above expectations; and Government purchases have behaved about as expected.

Although business fixed investment began to rise more promptly in this expansion than in earlier recoveries, its performance since the turn of the year has been disappointing. As against an expected increase of roughly 14 percent in 1962 over 1961, it now appears that the gain for the year will be closer to 3 percent. That figure of 8 percent is roughly consonant with the 10-percent figure you mentioned, Mr. Chairman.

I am sorry that we do not have a revised estimate at the present time.

This weakness of investment has sometimes been attributed to a "profits squeeze." In fact, corporate profits have increased, as already noted, by one-fourth over the period since the first quarter of 1961, although in the aggregate further profit gains do not appear to