

PROBABLE DEMAND PATTERNS IF THE FUTURE REFLECTS ONLY THE PAST

It is now time in this study to attempt a projection of the major components of demand over the next decade. As explained earlier, this is done in two stages. Stage 1 in this section projects the future as if it were a mirror reflection of past trends and relationships. It does not allow for the unexpected, for inconsistencies, for possible needs for policy changes. In a word, it lets the future unfold as if the economy never adjusted to growing inconsistencies between demand and supply, between incomes, expenditures, and savings. It is unfolded as if full employment, reasonably stable prices, and rapid economic growth could go on regardless of what happens to the surplus or deficit in the Government budget, regardless of what happens to the supply and demand for savings, regardless of whether incomes and expenditures really balance out in a manner that suits the preferences and habitual patterns of consumers, investors, and Government officials.

In general, these stage 1 projections of the major sectors of gross national product or expenditure and of national income were derived by one or more of the following techniques:

(1) Least squares regressions using GNP or other relevant variables which could be projected; (2) trends and ratios; and (3) other known factors which would affect the projections of particular items in the next 10 years. When the least squares method was used, the relationships were usually based on the high production years of the postwar period with little or no weight given to the recession and the early recovery years. In some cases, the more recent years were used as guides since the economic conditions or factors pertaining to the earlier years did not apply.

PROJECTIONS OF THE MAJOR COMPONENTS OF GNP IN CURRENT DOLLARS

1. *Personal consumption expenditures.*—These were derived as the difference between disposable personal income and other consumer outlays plus personal saving. It was therefore necessary, first, to project the national income, personal income, and disposable personal income as explained later in this section. Other consumer outlays were projected by use of a trend omitting the last few years (on the assumption that these high interest rates will not continue).

It was assumed that personal saving would be 5 percent of disposable personal income for the A projections and 5.5 percent for the B projections. The lower saving rate was used for A, since more of the employed would be in low income groups at the 3-percent rate of unemployed than would be the case for a 4-percent rate; those in the low income groups generally save less than those in the higher income classes. It may be noted that the average saving rate for the years 1961–65 was 5.5 percent, the rate used for the B projections.