

The period used was 1952-65 excluding the recession years, 1954, 1958, and 1961.

7. *Nonresidential fixed investment.*—This was derived as a residual from the sum of the above sectors and the projected GNP. The resulting investment projections yielded ratios to real GNP in 1970 and 1975, which were considerably above the high 1965 ratio. Such high investment rates could not be sustained for long or, if so, would result in excess capacity which would be followed by a downward adjustment in investment. This implies that the projections as developed did not generate enough personal consumption expenditures or that government expenditures are insufficient, or both are too low. An illustrative case is given below in model II to show one way the projections could be modified so as to achieve an equilibrium condition at the assumed high levels of GNP and employment.

IMPLICIT PRICES

The conversion from current dollars to constant dollars, or vice versa, for the major GNP components, was usually obtained by projecting the implicit prices for each category on the basis of a logarithmic relationship to the overall GNP implicit price. The relationships were generally based on the period 1957-65; in most cases the correlation was quite high.

NATIONAL INCOME

The national income projections were derived by adjusting the GNP for capital consumption allowances, indirect business taxes, and other items. The projections of national income were the same for both models I and II, although it is recognized that there should be a small difference in view of the lower rate of investment involved in model II from that of model I and, hence, a somewhat smaller projected capital consumption allowance—but this adjustment would be relatively minor.

(a) *Capital consumption allowances.*—These projections were based on the recent relation between corporate capital consumption allowances and GNP; that is, for the period 1962-65. The year 1962 was the first year of liberalized depreciation allowance and the relationship shifted from that of the earlier years. For the noncorporate capital consumption allowances, the 1960-65 trend was utilized.

(b) *Indirect business taxes.*—The Federal portion was projected from a regression to GNP (1955-65), adjusted to eliminate all so-called nuisance taxes. Projections of State and local property taxes were based on a regression with wages and salaries in State and local education, which, in turn, were derived from the trend of the number of school-age persons (5- to 21-year-olds) multiplied by the average expenditure per school-age person. All other indirect business taxes were based on a relationship with GNP for recent years.

(c) *Business transfers.*—These were based on separate trends for the corporate and noncorporate sectors; trends were also used to project subsidies less current surplus of Government enterprises.