

THE PAST BECOMES UNBALANCED IN THE FUTURE

As we moved from the past into the future in the previous section, it became quickly apparent that some of the relationships would indicate the development of distortions or imbalances between various components of the economy in future years. In this section we note briefly the major imbalances that appeared; then in the following section we will discuss something of the policy alternatives and their implications as they may arise over the next decade. The last section of the report will give illustrative solution to the problem of attaining equilibrium in the years ahead.

The projections described above were examined for reasonableness by comparing relevant ratios with those for the postwar period. As already indicated, the ratio of real nonresidential fixed investment to real GNP was higher than any year of the postwar period for both the A and B sets. Corporate profits ratios were also high by the same standard.

The foregoing detailed projections permitted the computation of the Federal surplus generated in 1970 and 1975 under existing tax legislation and programs. One other item is needed to obtain this computation, that is, Federal grants-in-aid to State and local governments. For the A set these are assumed to grow at the same average percentage increase in the 1965-75 period as in the 1960-65 period; for the B set, a somewhat larger absolute annual increase than that of the 1962-65 period was used. The surplus turned out to be very large for both the A and B sets of projections.

It is quite apparent that if the past relationships continued into the future they indicated a tendency for the economy to reach investment levels that were completely unsustainable for any long period of time and, at the same time, a tendency for large Federal surpluses to act as an impediment to maximum economic performance. The general problem presented, therefore, was to outline the ways in which the economic policies of the Government, as well as the private sector, could be readjusted so as to bring out a sustainable set of relationships between incomes, expenditures, savings, and investment that would be consistent with continuing maximum employment, rapid economic growth, and reasonably stable prices. The section below outlines some of those choices and their implications.

MAJOR POLICY IMPLICATIONS

Long-term projections of the American economy, such as those contained in this report, point up some of the important emerging questions of public policy in the field of economics. The distinction between longer term projections (those covering 5 to 10 years or more) and shorter term projections (covering the next year or two) carries over into any analysis of their policy implications. This study focuses on those longer term policy implications. Specifically, it is assumed that by the 1970-75 time period, U.S. military expenditures