AN ILLUSTRATION OF THE PROCESS OF ADJUSTING POLICIES TO PRODUCE BALANCED ECONOMIC GROWTH

So far we have projected the past into the future, noted the imbalances that seemed to occur as a result, and reviewed the policy choices that may face public and private policy makers in the years ahead.

However decisions are made to produce a better equilibrium than would occur from merely letting the economy continue into the future as in the past, one thing is made clear, we hope, by this point. The adjustment process will involve many complicated reactions of the economy to any changes in policy that are made. Furthermore, a wide variety of choices are available as to the shifts in policy that can be made. Merely to illustrate the complexities involved and to show how maximum employment, rapid growth, and stable prices could be achieved, the staff, in cooperation with the Office of Business Economics, sets forth in the accompanying tables and charts a full employment growth model achieved by adjusting essentially public policies. This stage 2 or illustrative model is purely arbitrary. The large Federal surplus generated in the stage 1 projection of the past into the future was apportioned so that in 1970 there would still remain a Federal surplus equal to about one-half of 1 percent of the GNP in that year, and rising to about 1 percent of the GNP in 1975.

The remaining surplus was then distributed so that one-third would go for personal tax cuts and the remaining two-thirds would be increases in Federal expenditures, mostly in the form of transfers and grants-in-aid to State and local governments.

This remaining two-thirds was then allocated by functions on the basis of order of priorities. For example, 30 percent was allocated for aid to elementary and secondary education in addition to the amount implied in the grants-in-aid used in model I; 25 percent went for additional aid for urban renewal and community facilities. Table 24 shows the allocations used by major functions. The amounts by functions were then distributed by type of Federal expenditures—purchases of goods and services, transfer payments, and grants-in-aid to State and local governments—roughly on the basis of trends shown for the period 1962–65. (See Survey of Current Business, July 1966.)

The resulting aggregate of grants-in-aid to State and local governments was then assumed to be reflected in additional purchases of goods and services by State and local governments.

The additional transfer payments yielded an adjusted personal income from that of model I; and together with the cut in personal taxes, a new estimate of disposable personal income was derived. Federal purchases were increased by the amount derived from the procedure explained above.

With these modified projections, a new set of estimates for the components of GNP and income were derived using the relationships