

2. The expansion in economic activity slowed down at about the same time that the rise in new obligatory authority slowed down.

3. The major rise in economic activity occurred prior to the major rise in government expenditures.⁵

Because the early stages of the government spending process often show up in the private sector rather than in the public sector—particularly private production on government account—it is a temptation, during periods characterized by sharp increases in government purchasing, to conclude that private rather than government demand is contributing the inflationary pressures. The following is an example of this shortcoming which often mars otherwise cogent analyses. The author is discussing the first year of the Korean mobilization program:

This great increase in private demand took place at a time when the federal budget was running at a surplus, and when the direct increase in expenditure for security programs was quite small. Thus most of the inflation in the year after Korea can be said to have been caused by the large volume of private spending. *The important point is that Federal fiscal policy cannot be held directly responsible for the inflation.*⁶

Maintaining that Federal fiscal policy was not inflationary during a period when the rate of military orders was doubling and constituted the major expansionary force in the economy may, in retrospect, appear to be a somewhat odd interpretation. However, the purpose here is not to dwell about ancient error, but to examine the possibility of its being repeated at the present time.

THE JANUARY 1966 PRESIDENTIAL MESSAGES

The budget message of the President issued in January 1966 states:

This budget presents a responsible fiscal program. It accommodates our foreign and domestic responsibilities in an environment of strong but noninflationary economic growth.⁷

The January 1966 Annual Report of the Council of Economic Advisers estimates that both the actual and high employment (née "full" employment) budgets on the national income accounts basis are expected to be approximately in balance in fiscal 1967.⁸

The text of the report does not cover 1966. However, the statistical appendix provides some extremely useful information. It shows that the Federal Government is anticipated to move from a point of some restraint in fiscal 1965—a surplus of \$1.2 billion on the national income account basis—to a deficit of \$2.2 billion in 1966. No estimate is presented for 1966 on a "high employment" budget basis.

The body of the Economic Report does not explain why fiscal policy will shift from mild restraint in 1965 to a somewhat expansionary condition in 1966. However, this point becomes more acute when attention is drawn to the measures of the early stages of the government procurement and expenditure process.

Appropriations and other new obligatory authority is estimated to rise (on an administrative budget basis) from \$106.6 billion in fiscal

⁵ M. L. Weidenbaum, "The Economic Impact of the Government Spending Process," *Business Review*, University of Houston, Spring, 1961, pp. 39-40.

⁶ W. Glen Campbell and others, *Economics of Mobilization and War*, Homewood, Ill., Richard D. Irwin, 1952, p. 75.

⁷ *The Budget of the United States Government for the Fiscal Year Ending June 30, 1967*, 1966, p. 9.

⁸ *Economic Report of the President*, 1966, p. 54.