

To make the saving-investment framework operationally useful for policy formulation purposes, it is helpful to make certain assumptions. Private saving (S) and net Government receipts (T) are quite predictably related to GNP, and their values can be estimated for an optimal level of GNP. Investment (I) and government spending (G) are not so predictably related. Investment is subject to numerous influences in addition to the level of GNP, an important one being monetary actions. Government spending is largely determined by noneconomic elements, especially of a political character. Thus, we may assume that planned high-employment levels of investment and Government spending are approximated by their observed values. In terms of the algebra, the H subscript is dropped from I and G .

With these assumptions, we may (1) state the appropriate magnitude of government saving ($T_H - G$) needed to achieve optimal GNP, given the relation between actual investment and planned high-employment private saving ($I - S_H$), or (2) state the amount of investment needed to close the high-employment savings-investment gap ($I - S_H$), given the magnitude of government saving ($T_H - G$). The first interpretation indicates the fiscal actions required to achieve optimal GNP, given monetary actions; the latter specifies the required monetary actions as they influence investment, given fiscal actions.

By regrouping equation (4) and denoting high-employment values, these interpretations of the saving-investment framework can be summarized as follows:

$$(5) \quad I - S_H = T_H - G.$$

The left-hand side of equation (5) indicates the private sector of the economy, the right-hand side, the Government sector. The larger is high-employment Government saving ($T_H - G$), the more investment (I) must exceed saving (S_H) if high-employment with stable prices is to be achieved. Alternatively, the more investment (I) exceeds saving (S_H), the larger must be high-employment Government saving ($T_H - G$) if optimal GNP is to be achieved.

ECONOMIC SETTING

Economic activity advanced strongly in calendar 1965, continuing the expansion which began in early 1961. GNP rose 5.5 percent in real terms and unemployment approached 4 percent of the labor force late in the year. Fiscal and monetary actions provided a strong stimulus to the economy during calendar 1965.

Recent economic experience in a saving-investment framework. With reference to the framework outlined above, actual investment approached planned high-employment saving during calendar 1965, resulting in high employment and production. This was the first time since late in 1956 that actual investment and planned high-employment saving were so nearly in balance.