

is soaring this fiscal year and is scheduled to taper off in fiscal 1967. If it is the order stage of the Government spending process rather than the delivery stage which is relevant for measuring fiscal impact, the effect of projected increases in Government expenditures may be having its major impact currently (in the first half of calendar 1966).

Another implication following from this thesis is that the economic stimulus of the current defense buildup may evaporate late in calendar 1966 or early in calendar 1967 if the scheduled changes in obligational authority are realized.

The Council's economic plans appeared to be internally consistent at the time of publication of their report in late January. These plans, however, left little margin for error, even within their analytical framework. Any unexpected increase in expenditures would require offsetting fiscal or monetary actions. Granting their assumptions about expenditures, receipts, and the level of GNP, there is some question whether budget policy was designed to restrain total demand sufficiently to avoid price inflation, given the shortcomings of the high employment budget as a measure of fiscal impact.¹¹

Since late January major measures of economic activity have indicated that total demand is rising more rapidly than the Council anticipated in their report. Within the saving-investment framework, it appears that planned investment is in excess of planned high-employment private saving. Such a situation would be appropriate if offset by high-employment government saving. This does not appear to be the case; it seems likely that the Federal Government is experiencing a high-employment deficit which is not being offset by a state and local government surplus.

Given this fiscal stance, investment and high-employment total saving (private and government) can be brought into equality by policy action designed to (1) discourage investment and/or (2) encourage private saving.¹² A failure to do one or both will result in price increases.

Unless fiscal plans are changed, the aim of monetary policy should be to dampen investment plans and to encourage private saving via higher interest rates, thereby reducing inflationary pressures. Higher interest rates would also be beneficial to the balance of payments by keeping U.S. prices competitive with the rest of the world and by reducing capital outflows. While such higher interest rates may have some social disadvantages, they may be more than offset by the benefits of stable prices and an improved balance of payments.

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¹¹ This is not to imply that the Council is not aware of these shortcomings. See the testimony of Gardner Ackley, Chairman of the Council of Economic Advisers, before the Subcommittee on Fiscal Policy of the Joint Economic Committee, July 20, 1965.

¹² Administration statements in recent weeks have indicated a possible move in the direction of fiscal restraint if price pressures continue in evidence. An increase in individual and corporate tax rates would increase Government saving and tend to discourage investment.