

and tax bases in the various regions of the country—effects which should primarily be favorable to the Middle Atlantic, Great Lakes, and New England areas.

THE OUTLOOK FOR 1967: WILL FISCAL RESTRAINT BE BIGGER ON THE INSIDE THAN ON THE OUTSIDE?

And now to my cloudy crystal ball. Ordinarily, the Federal Government would have issued by now a Midyear Review of the Budget, updating the estimates published last January. Very impressive reasons are given for the lack of a Midyear Review. As I recall, a different set of excuses were made last year. As a sometime forecaster, I will readily agree that it is always more comfortable not to have to stick your neck out.

Hence, the task at hand for us is to infer future developments from the most recent data. It is almost a situation of constructing a case based solely on circumstantial evidence. Let us begin by analyzing the pattern of military buying during the past year, the fiscal year ending June 30, 1966—which is the latest period for which data are publicly available. Because of the unique seasonal pattern of military ordering and the absence of a seasonal adjustment for earlier periods, it is useful to compare the data for a given quarter with the corresponding period in previous years. Beginning with the July–September quarter of 1965, we find that military obligations during each of the past four quarters were the highest for that respective period since the peak demands of the Korean war in 1952.

In addition, each recent quarter has been higher than the preceding quarter, with the greatest spurt occurring during April–June 1966. Because of the age-old tendency to concentrate Federal commitments in the final quarter of the fiscal year (so-called June buying), not too much can be read into the last quarter of data. However, it does seem quite clear that the upsurge of defense orders is not running out of steam.

The leadtime between ordering tanks, ammunition, and similar conventional limited war equipment is likely to be less than is the case for ICBM's, space systems, and other highly sophisticated aerospace products. Hence, the acceleration in defense buying in fiscal 1966 already has been translated into a \$4 billion annual rate of increase in defense purchases of goods and services in the July–September quarter and likely into another \$3–\$4 billion increase in the current October–December quarter. These estimates account for the first half of fiscal 1967.

Here, this swami's crystal ball begins to cloud up and you need to put some coin in his palm in order to obtain a forecast for the calendar year 1967. Hopefully, the fine print on that coin should contain the military obligation rate for the past quarter and estimates for the next quarter or so. There is little advantage to going back to the January budget; as we later learned, only some time after the document was released, it was based on the optimistic assumption that the war soon would be over. We are really on our own. Two alternative projections of defense spending in 1967 seem to be fashionable these days. The first, a Newtonian or Dow theory approach, says that the current increase in defense outlays will continue through 1967—the rationale being that if the war continues then the military buildup will need to continue.