The second or acceleration principle approach indicates that defense spending should taper off in the last half of 1967, even if the Vietnam fighting continues at its present pace, but, of course, barring another large-scale escalation. The idea here is that you can let up on the gas pedal after the vehicle attains the desired speed—in the present case, the new production lines should already have been put in place and quantity production rates achieved early in 1967. Also, to the extent that some of the recent ordering has been designed to restock military investories, new ordering can taper off as appropriate stock levels, particularly soft goods, are reached. Because this second approach is somewhat more sophisticated, I tend to lean toward it, but with limited confidence. The assumption of no further military escalation may be too optimistic.

One view that I do hold with greater firmness may be consistent with both of these alternatives and that is that the major shock to the American economy from the Vietnam buildup already has occurred. This statement is made despite the likelihood of Federal defense purchases reaching a total of $70 billion in 1967, a rise of 40 percent from 1965. Barring a fundamental escalation, it is unlikely that the coming year will witness the 33⅓ percent increase in defense orders that occurred last year. Hence, the inflationary pressures of a demand-pull nature which we have been experiencing during the past year are likely to subside somewhat, but the cost-push inflationary pressures are likely to continue.

TABLE 5.—*Federal receipts and expenditures in the National Income Accounts*

[In billions of dollars]

Calendar year	Receipts	Expenditures	Surplus (+) or deficit (−)
1958	78.7	88.9	−10.2
1959	89.7	91.0	−1.2
1960	96.5	93.0	+3.5
1961	98.3	102.1	−3.8
1962	106.4	110.3	−3.8
1963	114.5	113.9	+.7
1964	115.1	118.1	−3.0
1965	124.9	123.4	+1.6
1966 estimate	143.0	140.0	+3.0
1967 estimate	158.0	158.0	----------

NOTE.—See table 1 for possible adjustments to the expenditure and surplus/deficit figures.

To mollify those who anticipate a projection of the Federal budget' table 5 is offered, probably as a sacrifice on the altar of convention. No doubt it should be kept out of the reach of children and appropriately labeled as to its possibly being injurious to the health, financial in this case. It can be seen that I am projecting a relatively small surplus in the statement of Federal receipts and expenditures in the income accounts in calendar year 1966 and approximate balance in 1967—on the official basis. I have used poetic license in labeling these guesses as "estimates."