A few comments on the details of the projections may be in order. On the revenue side, I have attempted to take account of the scheduled continuation of the speedup in the payment of the corporate income tax. For example, in the current year, large corporations are paying about 116 percent of their normal annual liability (42 percent of their 1965 liability and 74 percent of their 1966 liability). In 1967, the speedup continues, with these companies paying approximately 126 percent of normal annual liability (the remaining 26 percent of their 1966 liability plus 100 percent of their 1967 liability). Thus, they will be on a pay-as-you-go basis for the calendar year 1968 as a whole.[4]

On the expenditure side, the bulk of the recently enacted increases in the various Great Society programs is reflected primarily in rising transfer payments and grants-in-aid to state and local governments. Relatively small proportions of these education, housing, and antipoverty programs result in Federal purchases of goods and services, The greater part of these purchases and virtually all of the recent increases are in connection with military and related national security programs.

On the face of it, it would appear that the trend is for a slight reduction in Federal fiscal restraint in 1967. As you must know by now, I do not believe that it will work quite that way. If we had the data to project the adjustment for defense obligations, I believe that the results would be a Federal deficit on income and product account in 1966 and a smaller deficit in 1967, thus indicating an abatement in the inflationary pressures directly resulting from the Vietnam buildup.

Dealing With Inflation

Some important policy implications flow from all this. A general tax increase taking effect some time in 1967 may be too late to deal effectively with the inflationary pressures of the Vietnam buildup and of limited usefulness in dampening a wage-price or cost-push inflation. It might also coincide with some of the belated impacts of this year's tight monetary policy, especially in its effect on business investment.[5] Thus, a tax increase now might relieve guilt feelings for not having enacted one in January, but mere confession of error might be more helpful.

Given the continued speedup of Federal revenue collections, assuming that our diagnosis of the economic impact of defense spending is approximately correct, and given the softness or slowing down in many private areas of demand, 1967 may be the year that—one way or another—they lower the boom.

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[4] Hence, *ceteris parabus*, a reduction in Federal corporate income tax receipts may occur in 1968.

[5] *Cf.* John Kareken and Robert M. Solow, "Lags in Monetary Policy: A Summary," in Warren L. Smith and Ronald L. Teigen, editors, *Readings in Money, National Income and Stabilization Policy*, 1965, pp. 76-80