a vigorous recovery to—and indeed above—the 1963–65 average of 1½ million starts. But this recovery could not be achieved if there were a return to last year's monetary conditions.

BUSINESS FIXED INVESTMENT

In 1966, the plant and equipment boom was straining the capacity of machinery industries, squeezing financial markets, and swelling imports of capital goods. A halt to this boom was essential to the Nation's economic health. It was achieved through a combination of forces—suspension of the investment tax credit, the direct and indirect impact of tight money, and the moderation in overall economic activity.

Business fixed investment is dipping slightly in the first half of 1967, and planned outlays were revised downward in the latest Commerce-SEC survey. In the same survey, however, businessmen reaffirmed their plans for a gradual upturn in plant and equipment spending in the second half of the year. There is a tendency for firms to keep scaling down their plans for several quarters, once they begin to make downward revisions. This tendency has to be recognized in the appraisal of the outlook, but so does the likely support of the restoration of the investment tax credit, which has now been approved by the Congress and signed into law by the President. The 3-month string of advances in new orders for machinery and equipment also reinforces the prospect of growing strength for plant and equipment.

Business fixed investment is likely to remain on a very high plateau in 1967; and it clearly will not be a major drag on the overall economy in the second half of the year. A return to the frantic advance of 1964–66 is not desirable. But it could become a danger if the economy were booming in 1968.

GOVERNMENT SPENDING

Rapid advances in both State and local purchases and Federal defense outlays have been a dynamic source of fiscal stimulus in the past year and a half. At the State and local level, spending may even be accelerating, accompanied by a rapid expansion of employment. Over the coming year, State and local purchases will continue to register strong increases, probably matching or even topping the $9 billion gain of the past four quarters.

At the Federal level, however, the $15 billion advance of purchases over the past year should not be repeated. The January budget program called for only modest increases in the rate of defense spending from the start to the end of fiscal year 1968. At the present time, plans for defense spending are still being guided by that program. Any appraisal of the outlook must recognize the uncertainty associated with the possibility of new decisions that would alter the January program. But, on the basis of present plans, the increase in Federal purchases over the year ahead should be less than half the gain in the past year.

All in all, purchases by the public sector will continue to be an important expansionary force, although quarterly increases may be about $4 billion rather than the $6 billion average of the past four quarters.