3. Continuation of this strong stimulus, however, would be appropriate only if inventory investment were likely to plunge into a sharp and prolonged liquidation, or if final sales were likely to level off abruptly.

4. Recent economic developments are inconsistent with either of these bearish possibilities. Current evidence clearly indicates that most of the drag of the inventory adjustment is behind us and that final sales are continuing to advance briskly. Economic growth has resumed and the economy is picking up speed.

5. The time has arrived for a movement of fiscal policy toward restraint in order to safeguard prosperity. Prompt enactment of the President's tax proposals would assure healthy economic growth, guarding against a new disruption of financial markets, preserving our opportunities for an improved price performance, protecting our international trade surplus, while permitting a solid advance of more than $50 billion in our gross national product over the next year.

THE STATE AND FUTURE OF BUDGETARY POLICY

Most economists regard the national income accounts budget as the best measure of the impact of Federal fiscal transactions on the flow of private incomes, spending, and production.

As so measured, the Federal budget has moved dramatically in a stimulative direction during the past year. In the first half of calendar 1966, it was in surplus at an annual rate of nearly $3 billion.

In that period, the Federal Government was subtracting more from private incomes through tax receipts than it was injecting into the stream of private purchasing power through income-creating expenditures.

In the first half of this year, however, the budget was deeply in deficit at an annual rate of $13 billion, registering a swing of $16 billion over the 1-year period. The annual rate of expenditures rose $25 billion over the year. Defense purchases dominated the picture, growing nearly $15 billion.

Social insurance benefits, reflecting the initiation of medicare, accounted for more than half the nondefense advance. Meanwhile revenues grew by a little more than $9 billion, reflecting changes both in taxe rates and in the economy. In particular, the drop in corporate profits put a dent of $2 billion to $3 billion in tax revenues.

The current rate of deficit, and the recent swing in the deficit, represent a potent fiscal stimulus, by any standard of comparison. At no time previously since the Korean war has the Federal budget on national income account been actually—or even potentially—in deficit under high-employment economic conditions.

During the Korean war, the peak deficit rate for any half-year period was $5½ billion—about the same as the recent $13 billion rate when viewed in relation to GNP.

In the absence of tax action, we could not count on a decrease in the national income accounts deficit over the year ahead. Indeed, at the upper end of the range of expenditure contingencies, the deficit would actually increase to a rate well above $15 billion.

On the other hand, with the tax increase and the efforts to cut back expenditures recommended by the President, and with the healthy