growth of revenues that will accompany a solid economic advance, the annual rate of deficit should be around $3 to $5 billion by the end of fiscal 1968.

There are times when a large imbalance of Federal spending over Federal income helps to balance the total economy, by offsetting a large imbalance of private income over private spending.

If private investment is especially weak or significantly weakening, if private desires to save are unusually strong or rising sharply, if credit-financed expenditures are depressed as the result of a highly restrictive monetary policy, then total demand will need the support of a Federal deficit in order to reach prosperity levels.

But history certainly tells us that, most of the time, a large and maintained Federal deficit under conditions of high employment will strain the capacity of the economy and generate inflationary pressure.

The wisdom of a tax increase as economic policy can be rejected only if one is confident that private demand is and will remain unusually sluggish. Only in that event could the economy take a persistent massive fiscal stimulus over the year ahead without becoming over heated.

THE STATE AND FUTURE OF ECONOMIC ACTIVITY

Demand was indeed sluggish in the early months of 1967, and the stimulus of fiscal policy helped to right the balance and to maintain the forward motion of our unprecedented 6½-year period of prosperity. But demand has already gained in vigor, and the evidence overwhelmingly rejects a forecast of sluggishness for the year ahead.

The economic conditions of 1967 are rooted in the developments of the past several years. In 1964 and the first half of 1965, we enjoyed a rapid and healthy advance fueled by the large fiscal stimulus stemming from the Revenue Act of 1964.

The tax cut added mightily to consumer and business purchasing power. And this extra purchasing power flowed into markets for goods and services, creating jobs and addiing to wage and profit incomes.

With the excise tax reduction of mid-1965, fiscal policy continued to be moderately stimulative, appropriately aiming for further progress toward the target of full employment.

In the summer of 1965, however, the decision to increase our military forces in Southeast Asia began to place a marked and unforeseen fiscal stimulus on top of our previous budgetary plans.