

ery and equipment, which have now advanced for 4 straight months and are now running ahead of shipments.

All of this adds up to the verdict of a buoyant economy in which the pursuit of a highly stimulative fiscal policy would be inappropriate—indeed, perilous.

I have far more confidence in this overall judgment than in any quantification I can offer of just how fast the economy is likely to advance and just where the gains will take place. Nevertheless, this committee may be interested in a sketch of our current numerical projections. Assuming no major disruptions from strikes or developments abroad, our estimates for the next two quarters show the following, if Congress were to reject the President's tax proposals.

1. Spending by State and local governments should rise about \$4½ billion, maintaining its steady and stable upward trend.

2. Spending by the Federal Government should rise between \$3 and \$6 billion, depending on defense contingencies and on congressional decisions regarding the Federal pay bill and other key civilian issues.

3. Housing should rise about \$3½ billion provided funds remain available.

4. Plant and equipment spending should essentially remain on its high plateau. But, in the absence of a tax increase, it could rise by \$1 billion.

5. Given these gains and the growth of incomes they would generate, consumer spending would rise by between \$16 and \$18 billion.

6. Inventory investment should begin its recovery, rising by \$1 to \$2 billion.

Even at the lower end of this range of these estimates, the increase in gross national product would be \$29 billion. At the upper end the \$35 billion advance would nearly match the hectic pace of gain between the third quarter of 1965 and the first quarter of 1966.

If unchecked, the pace of advance would accelerate in the first half of 1968, as investment in plant and equipment and inventories responded to booming sales.

This would be too rapid a pace of growth, inconsistent with the stability of interest rates. It would give renewed momentum to the wage-price spiral and eliminate any hope for a return to price stability.

A growth in gross national product of about \$50 billion over the next year would approximately keep pace with the growth of our productive capacity, enabling us to add to real output at a rate of about 4 percent a year, after correction for the built-in price increase that we must expect. Since we have a small margin of excess capacity today, we could welcome a rate of growth slightly above that pace.

But we certainly could not welcome—indeed, we cannot safely tolerate—a growth of as much as \$60 billion or more.

With the President's tax program, our projections show good prospects for realizing a growth in the neighborhood of \$55 billion over the next year. Prompt enactment of a tax increase will both moderate the growth of purchasing power in the fourth quarter, and prevent the development of inflationary expectations. It would assure that the recovery of homebuilding is not aborted by tight money, and that recent welcome gains in our international trade surplus will continue.

The assessment of the outlook I have presented is broadly in accord with the judgment of most expert forecasters today. We have