and to a 20 per cent rate from then to the end of 1966. According to the budget plan, expenditures will rise at a 10 percent rate from the last half of 1966 to the first half of 1968.

The planned decline in the NIA deficit from $5 billion (annual rate) in the first half to $3 billion in the last half of calendar 1967 reflects mainly the planned surcharge on income taxes. In addition, defense spending is expected to level off. Domestic civilian programs are to continue their advance, particularly in the form of expanded social security benefits.

Economic effects of the budget program

The budget plan is predicated on a forecast of sluggish growth in private demand in the first half of calendar 1967, with a resumption of more rapid growth in the last half. These fiscal plans are presented as having significance for monetary policy in coming months. The Council of Economic Advisers' Annual Report assumes that monetary actions will be less restrictive in calendar 1967 than in 1966.

When the fourth quarter 1966 increase in GNP is adjusted for some involuntary accumulation of inventory, a further slowing of production and attempts to reduce inventory are portended. Such a situation is believed to dictate a need for more stimulative economic policy. However, since fiscal and monetary policies affect total demand with lags (although their lengths may vary) excessive stimulation in the next few months might be too late to avert a slowdown in the first half, but create serious inflationary problems in the last half of calendar 1967.