

tary policy was beginning to shift in the direction of ease. And, by that time, the national income budget had arrived at a mildly stimulating position that was also appropriate to the general economic situation.

Thus, the general contours of fiscal stimulus and restraint over the past year coincided closely with the requirements of the economy. Restraint was needed early in the year, and it was there. As the need decreased, so did the restraint. I will not argue that fiscal perfection was attained in 1966. But I do contend that the overall pattern of fiscal action was prudent and responsible in view of the manifold uncertainties that were present throughout much of the year.

The President's fiscal program for this calendar year has been carefully framed to provide maximum flexibility. It will continue to be important to apply restraint and stimulus cautiously and at the proper time. During the first half of this calendar year, we expect to see some adjustments taking place within the context of a generally rising and prosperous private economy. Defense expenditures will still be moving up, and a moderate advance should be taking place in other components of demand. But some moderation in the rate of growth in inventories, in line with recent sales trends, may well occur in certain industries. During this same period, the housing industry should be gaining momentum but will not have reached full speed.

All told, during this first half of the year, we are likely to need to complement a continuation of monetary ease with a moderate degree of fiscal support while some sectors of the economy are shifting gears. And that is what fiscal policy is designed to provide.

By the second half of calendar 1967, the economy is expected to pick up added steam and be in much less need of a fiscal push. An easing of monetary policy should lead to a significant revival in housing. Assuming favorable congressional action, personal incomes will be augmented at midyear by a rising stream of social security benefits, with higher payroll taxes to follow in 1968. And on current estimates, Federal expenditures for Vietnam and other defense outlays, as measured in the national income accounts, will rise by another \$5.8 billion during the fiscal year that begins this July.

The President has recommended a 6 percent surcharge on both corporate and individual income taxes to be effective at midyear and to last for 2 years or for so long as the unusual expenditures associated with our efforts in Vietnam continue. An exemption from this surcharge is provided for low-income taxpayers. The revenue effect of the surcharge would increase calendar year 1967 tax liabilities by \$2.8 billion—\$1.9 individual and \$0.9 corporate. In calendar year 1968, tax liabilities would be increased by \$5.8 billion—\$3.9 individual and \$1.9 corporate. In addition, legislation will be recommended to provide a further acceleration of certain corporate tax payments commencing in calendar 1968.

Assuming favorable action on the President's program, the national income budget would move into a smaller deficit position during the last half of this calendar year than otherwise would be the case. And, on current projections, the budget would exert an essentially neutral influence in early 1968, reaching balance, and possibly a surplus, by mid-1968.