—a slowdown in the first half of the year as inventory accumulation falls off, coupled with a speedup in the second half as easier money boosts construction and Congress boosts social security benefits.

Both the basic pattern of overall budget impact and the specific fiscal-monetary proposals of the administration seem to fit these emerging circumstances very well.

In 1966 we moved from a budget surplus of nearly $3 billion—at annual rates—on a national income accounts basis in the first half of the year—and the administration is to be warmly commended for the primacy it has now given the NIA budget, especially in discussions of economic policy—to a growing deficit in the second half of 1966 ($0.2 billion in the third quarter and an estimated $4.5 billion in the fourth quarter), and the budget will move from a $5 billion deficit in the relatively soft first half of 1967 to a rough balance in the first half of 1968, when private demands should again be nearing normal strength.

The temporary surtax. Quick and fine tuning of economic policy must be the order of the year in which we expect first an ebb and then a flow in the tides of economic advance, all the while operating near full employment, with continued cost-plus inflation. In this context, the case for the midyear effective date for the proposed 6-percent temporary surtax is clear.

But it is equally clear that we are loading a heavy burden on the back of economic forecasting

—a burden that may be greater than our present forecasting techniques should be asked to bear;

—a burden that can be lightened by increasing the flexibility and responsiveness of economic policy.

For 1967, a major part of that flexibility can be provided in the timing and terms of the temporary tax increase:

(*a*) If a slowdown in the economy is more pronounced or lasts longer than expected, or if monetary easing is halted in midstream, or if social security and other Government program increases are slow in coming, the effective date of the tax increase could be postponed.

(*b*) If the first-half lull unexpectedly persists throughout the year, the tax increase could be dropped for 1967.

(*c*) Obviously, if the overall level of demands for the year is either stronger or weaker than expected, the surtax rate could be raised or lowered.

(*d*) As another option, depending on the strength of investment and consumer demand and the course of prices and corporate profits, together with action on the investment credit, one might want to consider limiting the surtax to corporate income.

Expenditures. Government expenditures, primarily transfer payments, offer another important element of flexibility. Social security benefit increases are the primary case in point. The effective dates of those increases—in particular, whether they are made effective January 1 or July 1 of this year—can be an important element in the fine tuning of economic policy. Effective dates of any accompanying payroll tax increase offer another potential response to economic developments. I might add that I think these timing options can take place within whatever actuarial principles govern the social security trust funds.