Other expenditures offer some possibilities for speedup or slowdown—the Federal highway grants are a case in point. But given the inevitable lags in such spending, the practical stabilization potential of these shifts should not be overestimated. And as I suggest below, we should not let short-term stabilization policy pervert our longer term order of national priorities. Our high-priority domestic programs should be considered on their merits and not as vulnerable dollars in our stabilization arsenal.

Investment credit. Another important element in flexible policy is provided by our currently suspended investment tax stimulants. Perfect foresight would have called for an earlier suspension date than last October. Had we cooled off the investment boom a little earlier, the prospect for restoration of the investment credit and accelerated depreciation before the scheduled January 1, 1968, date would now be quite bright. Even as it is, a reinstatement of these tax privileges by, say, midyear of this year may make sense to avoid the threatened air pocket in investment spending during the second half of the year. But the air pocket could also be avoided by extending the suspension for an additional year, to January 1969. The important thing is not to prejudge that issue now, it seems to me, but to treat it as an open question, to be resolved in the light of (a) overall strength in the economy; (b) the relative strength of consumption and investment, taking particular account of the pressures in the machinery and equipment industries; and (c) the balance between the competing interests in modernization of our capital stock and the need to avoid overcapacity.

Present estimates suggest that investment is expanding manufacturing capacity at a rate close to 7 percent a year, almost matching, for example, the 2-year expansion of capacity (7.7 percent) for 1962 and 1963. Should actual operating rates in most industries be well below preferred rates by summer, it might be more prudent for the longer run to delay reinstatement of the investment stimulus. This would be especially so if capacity pressures continue to plague the machinery and equipment industries, while operating rates are slackening elsewhere. This prospect becomes more likely in the light of the most recent McGraw-Hill survey under which:

—Planned investment outlays rise in each quarter of the year. As I recall, the rise was 6½ percent for the year—which by the way, would place fourth-quarter investment spending at an annual rate of some $3 billion over what I have been projecting in my own forecast.

—These plans were made against a background of average operating rates at 88 percent in December, although several industries—notably electrical machinery—were still above preferred rates of operation.

It is true that we originally instituted the credit in 1962, when operating rates were well below preferred levels. But at that time, we knew that industrial output would rise sharply as we pushed toward full employment: Indeed, it rose by one-third—32 percent—between 1962 and 1966. Over the next 4 years, a rise of only perhaps two-thirds this much—20 percent—is all one can reasonably count on, because we don't have the unused resources in the economy to draw on. Thus with additions to capacity outpacing additions to output in most lines, and investment goods industries continuing under capacity pressures, an extension of the credit suspension may be worth considering