

pected rise of Federal Government expenditures, essentially for defense, and the continued increase of state and local government expenditures. But the reduction of unemployment, which proceeded from 1963 to early last year, has come to a halt at about 3.8 percent of the labor force.

A key to the trend of economic developments in 1967 is Government policy.

Administration actions in the past 2 months have halted at least temporarily the sharp drop in homebuilding. Moreover, the modest easing of monetary policy and interest rates is probably encouraging business expectations and should lift homebuilding and related activities in the coming months, if the recent trend in monetary policy continues. Already residential construction seems to be moving up slightly.

In addition, the increase in the Federal minimum wage for nearly 5 million of American's lowest wage workers is adding about \$1 billion of high multiplier buying power to the economy's spending stream in the next 12 months. Collective bargaining gains, hopefully, will also provide some additional strength to consumer markets.

The operations of medicare and medicaid are also adding strength to consumer markets.

The President's Budget proposes a continued, but slower, rise of military spending to meet commitments in Vietnam, as well as a modest increase of Government expenditures for domestic programs.

We of the AFL-CIO remain firmly convinced that the American economy has the resources for extending our social advances, while meeting the military requirements of the conflict in Vietnam. The cost of the war should not be absorbed by freezing or cutting expenditures for such essential domestic programs as housing and rebuilding of our cities, aid to education, the war on poverty, the achievement of clean air and water.

The administration's budget proposals appear to be moderately expansionary in 1967. In the first half of the year, with soft and weak spots in the private economy the Federal Government will add a yearly rate of about \$5 billion more of the spending stream than it takes out—providing a moderate stimulus, in addition to the stimulus of a less stringent monetary policy to economic activities.

During the second half of the year, the administration's suggested tax boost would offset the administration's proposed increase in social security benefits. In anticipation of a substantial rise of economic activities, the administration's proposed budget would add a yearly rate of only about \$3 billion more to the economy's spending stream than it takes out in the second half of 1967.

However, economic projections are not precise. Actual trends during the next 3 to 4 months may not develop as the Government's experts now foresee them. Whether the suggested tax increase will have a beneficial or depressing impact on the economy in the second half of the year should become clearer in the coming months than at present.

The question at the moment is whether economic activities, the demand for goods and services, will rise sufficiently in 1967 to prevent a rise of unemployment and make possible a continuing and gradual reduction of unemployment.