The economic environment in early 1967 is markedly different from a year ago. The Economic Report of the President and the Council's 1967 annual report clearly reflect this fact. In the interval between the 1966 and 1967 reports consumer prices rose 3.3 percent and labor costs per unit of output rose to the highest level in almost 6 years, despite the optimistic hope expressed in last year's Economic Report that "overall stability of costs and prices will be preserved in the year ahead." The year 1966 was one in which the simple numerical wage-price guideposts were swept away before the onslaught of excessive aggregate demand, spurred by a faster escalation in Vietnam than predicted and a correspondingly sharp advance in business investment spending. It was a year in which too little and too late fiscal restraint forced monetary policy to excessive tightness that brought a precipitate decline in residential construction and close to disorderly conditions in the bond market last summer as banks unloaded securities to obtain loan funds. And 1966 was also a year when no further improvement in our payments deficit took place.

In fact, had it not been for the magnet of our high interest rates that pulled in short-term capital from abroad, our deficit would probably have worsened as our export surplus shrank.

Both the Economic Report and the Council's annual report recognize that the year ahead poses delicate problems for national economic policy on all fronts. This is especially true on the monetary-fiscal and wage-price fronts. Each report acknowledges some of the policy mistakes of 1966, particularly the failure to recognize the inflationary pressures built up by excessively easy monetary and fiscal policies and the impact of rising defense spending on a fully employed economy. The key question is, Have the reports properly identified and reasonably evaluated the probable stresses and strains in the economy this year? We believe they have not.

The Economic Outlook

The Economic Report has the advantage of appearing at the end of the annual economic-outlook derby that starts each fall. It is no surprise, therefore, that the Council's 1967 GNP estimate of $787 billion lies within the range of earlier private forecasts—although at the upper end.

But this year, knowledge of earlier private forecasts may have been a disadvantage, because these forecasts are currently being revised downward. The projected rise in "overall prices" of "slightly more than 2½ percent" is close to earlier forecasts, as is the view that "the Nation should continue to experience substantially full employment," although the assumed 3.9 percent unemployment rate is lower than most private estimates. But it is with respect to the size, trend, timing, and consistency of changes in the major categories of spending composing the GNP that the Council's forecast is most open to question. Let me elaborate on this point.

The Council expects the all-important GNP component—business fixed investment spending—to rise about $3 billion this year over last year's record. The Council cites the November 1966 survey of intentions for plant and equipment spending as basis for its statement that "investment should increase only slightly from its level in the fourth quarter of 1966."