The Council's forecast, and its recommendation for a tax increase in the second half of 1967, are based on its belief that overall private demand will be significantly strengthened in the second half of the year. The $1½ billion increase in payroll taxes which went into effect the first of the year will be nearly offset by the reduction in personal income tax payments to be made in April as a result of the graduated withholding system instituted last year. An increase in Social Security benefits is proposed to take effect at midyear, with no increase in revenue from payroll taxes until 1968. With money less tight, construction should be recovering just as inventory investment starts levelling off. That is in brief the basis of the Council's belief that "A shift toward restraint in fiscal policy is appropriate at that time."

A look at some of the figures gives less reason to believe that the economy by midyear will be receiving as much stimulus as the Council anticipates. Its forecast is based in part, for example, on the assumption that real personal disposable income will increase by as much in 1967 as in 1966. But if it does so, it will be reversing a four-year trend. As the following table shows, real disposable personal income, both in aggregate and per capita, has increased by a smaller amount each year since 1963, in part a reflection of the lag in real wages referred to elsewhere in this statement. With an anticipated GNP growth less than that from 1965 to 1966, there is no strong reason to believe this trend will be reversed.

Disposable personal income, 1963–66

	Total [1]		Per capita [2]	
	Amount	Increase from previous year	Amount	Increase from previous year
1963	$381.3		$2,013	
1964	406.5	$25.2	2,116	$103
1965	430.8	24.3	2,214	98
1966	451.5	20.7	2,294	80

[1] Billions of 1958 dollars.
[2] 1958 dollars.

Source: Council of Economic Advisers report.

In other respects the consumption picture looks less than bright. Retail sales are lagging. Recent surveys of consumer buying plans also suggest a tapering off in the rise in consumer spending. The rise in the personal savings rate in the fourth quarter of 1966 may be another sign of increasing consumer caution. Automobile sales are at disappointingly low levels. Production schedules have been cut back repeatedly during the past two months, and auto workers have suffered short workweeks and week-long layoffs, yet inventories remain disconcertingly high and may still rise higher, and further cutbacks in production seem not unlikely. Appliance production is also being cut back, and the lowered production of these two industries is beginning to be reflected in faltering demand for steel.

The Council's own figures on investment plans do not justify the optimism it displays for a pickup in the second half of 1967. It estimates that business fixed investment "should show a rise of about $3 billion from 1966 to 1967." Business fixed investment in 1966 was $60.56 billion, so the average for 1967 should be about $63½ billion. But the Commerce-SEC estimates for the first two quarters of 1967 are $63.45 and $64.05 billion respectively. If the average for the year is to be $63½ billion, that leaves no room for any increase in the second half at all.

Another factor may actually tend to reduce the level of business fixed investment in the second half of 1967. The suspension of the investment tax credit last year did not immediately affect the rate of investment to any significant degree, because it did not apply to commitments already made. By the middle of this year, however, the bulk of those investments will probably have been completed, and, in view of the restoration of the investment tax credit in 1968, new commitments will be withheld until after the end of the year whenever possible.