

how much Government you are going to have in the country, what Government programs we are going to have, how much resources will be allocated to Government uses, as compared with private uses. So, you have to look at fiscal policy much more than merely as the balance wheel for keeping the economy going.

Now, during this year of 1967, we can see a number of growing weaknesses in the economy, at least developments that will call for some readjustments in the economic system, readjustments that will involve difficulties. For example, we are very close to, if we are not *at*, a peak in the capital goods boom. We had a 16-percent increase in capital goods expenditures last year over the previous year. Some of the more optimistic forecasts have indicated 4 or 5 percent increase this year, but even those are very doubtful.

It is notable in the past that when you were close to the turning point in capital expenditures, you found that the actual level of realized capital expenditures in any quarter fell below the previously compiled plans for such capital expenditures. That happened in the last two quarters of 1966, and that is an indication that we probably are very close to the peak level of capital expenditures.

This is to be expected, because every one agrees, including the Council of Economic Advisers, that the real growth rate in the economy in 1967 has to be less than what it has been in the past 4 or 5 years. We can't continue indefinitely this 5½ percent real growth rate.

We have been drawing resources into economic use that were normally considered standby resources, and we have reached the end of that process. We have to depend on the demographic growth in population and the normal growth in productive capacity, and that won't permit more than something like a 4-percent growth from here on.

Now that in itself is not something to be concerned or worried about, but it does have a bearing on the capital goods picture, because the production of capital goods is itself determined, at least partly, by the need to provide additional facilities for meeting the needs of growth. As the labor force increases, you need capital expenditures to provide them with the tools and equipment that they work with. So that when the economy generally decreases its growth rate, you find that the actual level of capital spending may decrease, at least the level of the part of capital expenditure that is for expansion of capacity.

A second adjustment that we will have to make during this year is to a leveling off of the defense boom. This is somewhat concealed by the usual figures we see in the national income accounts. These indicate about a 20-percent increase in defense spending between fiscal 1966 and fiscal 1967, and a 10-percent increase between 1967 and 1968. But actually, in the national income accounts, defense spending is counted at the time when the goods are delivered to the Government. The economic activity is all over by that time.

If you look at the actual obligations incurred in the Government, you find that what is planned for fiscal 1968, is only about 1 or 2 percent above what is expected in fiscal 1967. In other words, the figures that indicate the economic activity arising out of defense orders will about level off between the current fiscal year and the one to come. There is very little growth there, so we have another factor to which the economy has to adjust, a leveling off of that growth.