said. Mr. Lekachman, as I announced before you came in, we would appreciate it if you would try to confine your initial statement to 15 minutes if possible. You will follow Dr. Colm, who is our next witness.

Dr. Colm has a little more detailed statement, and I am sure he will abbreviate it to some extent.

TESTIMONY OF GERHARD COLM, CHIEF ECONOMIST, NATIONAL PLANNING ASSOCIATION

Mr. Colm. Mr. Chairman, indeed, my statement is a little bit longer, and if I am permitted to——

Chairman Proxmire. Your entire statement will be printed in the record.

Mr. Colm. Thank you, Mr. Chairman.

I appreciate very much the invitation to participate in this year's hearings. I find it a bit difficult as an economist to diagnose the situation in a way which could be the basis for policy action. It is easy to give advice on economic policy when there is a clear threat of a recession. It is easy when there is a clear threat of inflation. We have, as everybody recognizes, at the same time recessionary and inflationary tendencies.

The inflationary tendencies emanate from the budget. Instead of reading figures, I would like you to take a look at the first table presented to you in the appendix to my statement (see p. 893). That is the Federal budget in national income accounts terms. It breaks it down by half calendar years.

Whatever measurement one uses, and this is the national income accounts, in the movement they are not so different, the table shows that we had the greatest increase in the second half of 1966, continued increases during the year 1967, and continued increase also in the first half of 1968—calendar 1968.

The increase according to the budget figures is declining. But we have an increase. We have quite a bit of change in composition, particularly the transfer payments will rise in the second part of the calendar year 1967 because of the recommended increase in social security benefits. We have the sharpest decline in national defense expenditures—pardon me, in the increase in national defense expenditures. The increase was from the first to the second half of calendar 1966, almost $8 billion; from the second half of the year 1966 to the first of 1967 this is projected at $5 billion, $2.5 billion from the first to the second part of the calendar year 1967.

Here I may pause, coming to the same question raised by Dr. Wallich. Last year we had the experience that defense expenditures were grossly underestimated, as the chaiman has repeatedly emphasized. Apparently, no such repetition can be expected this year, because there is no such unrealistic assumption made that the war may end by the middle of the calendar year 1967.

We have a planning assumption of continued war and continued present strategies. Taking this assumption, I still—being a layman in this field—share Henry Wallich's concern that the increase by $2.4 billion is a very small one, and under this assumption, I would