

count at least on the possibility that expenditures may turn out to be larger than now estimated.

I emphasize this is not a statement of what will probably happen. This is a planning assumption. In my personal opinion it is more probable that over the period of a year and a half, something will change, whether it's escalation, or as I hope, deescalation, but for planning purposes, it would not be wise to count either on the one or the other, because if that happens, all bets are off, and different policies would be needed anyway.

Under this planning assumption, I would at least keep in mind a possibility that defense expenditures will turn out higher than are now estimated.

If you will look again at table 1, at the deficit figures estimated in the national income accounts, we see during 1966 the swing from the substantial surplus to a deficit, from surplus \$3 billion to minus \$2.5 billion. The deficit will go up in the first half year 1967 to \$5 and to \$7 billion, in the second half of calendar year 1967. This means, of course, a somewhat arbitrary division of the fiscal year estimates into two half year periods. I don't go into the method as to how we did that, but this assumes smooth development throughout the fiscal year.

This deficit has been estimated without consideration of the income tax surcharge. The conclusion is that the budget, without that surcharge, is of an expansionary nature and would possibly in part offset recessionary tendencies emanating from the private sector of the economy.

Henry Wallich made the remark that the NIA budget is not entirely satisfactory. From the point of view of economic analysis, within the structure of an accounting system, I think it is great progress that the President has adopted this as the main system, also giving data on the other, but pushing this system. Nevertheless, I agree with Mr. Wallich that we should look at more data than this.

If you turn to my table 2 (p. 894) you will find various other measurements there. If you want to be sure, referring to the credibility gap, the budget which is printed for everybody to read has in point the most honest figure which can be produced, and is called the gross expenditures. No deduction, no trick is possible here.

I have excluded intragovernmental transactions, but the first time gives you an absolutely gross figure from which no back door financing can be deducted. It amounts to \$205 billion for the fiscal year 1968. The budget has that for everybody to see.

But there are some other items which are not reflected or not fully reflected in the national income accounts budget. One is the capital transactions. It is entirely correct not to include the financial capital transactions right within direct spending. I think it's an advance to separate them, but by emphasis on the national income accounts budget, we are going to forget that there are these financial capital transactions, which do have an effect on the economy.

You see in table 2, for instance, that in the fiscal year 1967 we have a very substantial increase in direct loans which is not reflected in the national income accounts. These are reflected in the consolidated cash statement which is also given, and I think it is also of significance. But there is one type of transaction which is not reflected in any budget: That is the guarantees and insurance of loans. You will see