

Second, there are indications that in the absence of a further escalation of Vietnam, the rate of increase in economic activity may slow down or may even come to a halt. The expansion which has lasted 6 years is looking tired, particularly in the civilian sector.

Third, the suspension of the 7-percent investment tax credit and of accelerated depreciation for buildings combined with tight money helped to slow down the boom in the plant and equipment. The narrower profit margins probable for this year will reduce the incentive as well as funds available to finance plant and equipment spending. On balance, a leveling off in plant and equipment spending is probable even if the investment tax credit is restored. Because we have been getting increases in capacity which exceed the growth in the economy, excess capacity is beginning to develop.

I see 1967 as a year in which there will be a slower rate of growth if the Vietnam war continues, and a moderate recession similar to the post-Korean one if the Vietnam war ends.

There is one other factor about 1967 that must be emphasized. Inventories have been accumulating at the rate of in excess of \$15 billion a year. Now what does this mean? It means that if gross national product is \$760 billion and \$15 billion is inventory accumulation, we have only been consuming \$745 billion, and it means that if we stop accumulating inventories, not liquidate them, merely stop the accumulation, we take \$15 billion out of the economy. That represents many jobs and a significant reduction of pressure on prices. And if we should liquidate some of these inventories, we could very easily get a swing which will take \$20 billion out of the gross national product, and will help to reduce, if not eliminate, the pressures for price rise.

As I see the price outlook, inflationary pressures are still present in the economy, particularly from higher labor costs. However, on balance there is a strong probability that we have seen the maximum rate of pressures for price inflation already. Prices should rise at a slower rate in 1967. Assuming no change in Vietnam, the rise in the Consumer Price Index will be 3 percent or less, and that in wholesale prices 2 percent or less. Incidentally, in the last 3 months the Consumer Price Index has risen about two-tenths of a point, and the Wholesale Price Index has shown minor changes.

The actual degree of price inflation will be determined to a large extent by events in Vietnam and by the fiscal and monetary policies adopted. It will not be determined by the wage-price guideposts.

Further escalation of the war would intensify the pressure for higher prices, unless fully offset by higher taxes. On the other hand, a stabilization of the war effort or a cutback would moderate significantly the pressures for price inflation. Since I have no way of determining which of these alternatives will develop, any projection of prospective price change must be qualified.

Let me conclude. I strongly endorse the educational objectives of the guideposts as originally described in 1962. It is useful to emphasize there are general limits to rates of gain in real wages, and in the levels of living that can be realized annually, particularly since public expectations seems to have far outdistanced the possibilities of even our affluent society.