Table 1 shows the Federal surplus or deficit during prior postwar periods of relatively full employment. With one exception, we have not seen NIA deficits during such periods. The only exception is the 1952–1953 period. Even here, the size of the deficit in relationship to GNP was significantly smaller than it was in 1967 and is projected for 1968, barring a tax increase. And this 1952–1953 period was followed by drastic reductions in defense expenditures consequent upon the end of the Korean War—so we do not know what the consequences of such deficits might have been.

TABLE 1.—FEDERAL DEFICITS OR SURPLUSES IN PERIODS OF HIGH EMPLOYMENT

Period (calendar year)	Unemployment rate (percent)	Federal surplus (+) or deficit (—) [1] (billions of dollars)	Surplus or deficit as percent of GNP (percent)
1948	3.8	+8.4	+3.3
1952 and 1953 (1st half)	2.9	—4.3	—1.2
1956 and 1957 (1st half)	4.1	+4.9	+1.2
1965	4.5	+1.4	+0.2
1966	3.8	+0.3	
1967	3.8	—12.6	—1.6
1968 without tax increase	?	—13 to —14	—1.7

[1] National income accounts basis.

By themselves, of course, these statistics prove nothing. Starting from a period of full employment, private demands could of course weaken substantially, and call for a substantial Federal deficit in order to maintain full employment conditions. Yet, it is significant, I believe, that during the postwar era we have typically run budget surpluses in periods of full employment.

2. The deficit in relation to the growth of GNP—and its consequences:

Relating the Federal deficit to the absolute size of GNP misses its real meaning. The projected 1968 deficit of $13 to $14 billion is, after all, only 1½ to 2 percent of GNP. How can such a small relative magnitude be so important? But what is relevant to problems of economic growth, demand-pull inflation, and unemployment, is the increase in total market demand relative to the increase in economic potential. Starting from full employment, a rise in GNP of, say, $10 to $20 billion in excess of the rise in economic potential would have significant inflationary consequences, even though that excess rise were only 1½ to 2 percent of the level of GNP.

Looked at in this context, a $13 to $14 billion Federal deficit looms quite large in terms of the $55 to $60 billion rise in GNP which would be consistent with stable economic growth in the year ahead.

If we were facing a sharp reduction in one or more sectors of the economy, such a deficit might indeed be warranted—as the $13 to $15 billion deficit in early 1967 helped offset the precipitous drop in inventory investment which occurred during that period. Without attempting to forecast the specific movement in particular sectors of the economy, let us examine each of them to determine whether such a reduction may be expected, and whether, therefore, a large Federal deficit is a necessary prerequisite for maintaining steady economic growth.

Consumer demand.—The consumer saving rate rose sharply in 1967.