

the economy generally and in the sales of business firms, with plant and equipment spending at a plateau, the utilization rate would rise somewhat. However, this would represent minimal stimulus to gross national product from plant and equipment investment by business.

Two.—The outlook has also been clouded for consumer spending. Consumer expenditure expectations softened somewhat in January. Auto sales have not held up to the 9.3 million forecast for 1968, but the interpretation is uncertain because of the Ford strike during December and the rolling General Motors strikes during January.

With relatively high interest rates and the tightening money supply, it is difficult to make a case for more than 1.4 million housing starts during 1968. Since so many of the other durable consumer goods are related to new household formation, the outlook for increased spending on consumer durable goods generally must also be subject to reservations.

Three.—Government spending is reduced. The budget estimates for fiscal 1969 indicate an increase of \$10.4 billion versus \$20 billion for fiscal 1968. This represents an increase of about half the fiscal 1968 rate.

Four.—A strong case can be made that exports will be down rather than up. If the British devaluation is to have any of the results expected for it, one can only expect that U.S. exports to Great Britain should decline. The acceleration in price inflation in the United States during the last half of 1967 does not help our position in export markets, either.

But, even if strong economic recovery in Western Europe, and price inflation in Western Europe, redressed somewhat some of the unfavorable price trends that developed during the past year, no one can seriously make a case that if net exports did not turn down, they would turn up by very much.

Five.—The stimulus from inventory strike hedge buying will be over by midyear. Thus, the standard forecasts for 1968, for the year as a whole, of about a \$60 billion increase in gross national product allocate a considerable portion of the \$60 billion to the first two quarters of the year and less to the second two quarters.

Thus, it is argued that the major impact of any tax increase would come when the stimulus from inventory investment had subsided, in fact, would come when business would be faced with the necessity of working down inventories. In short, the tax increase would come when the inventory impact on the economy would be negative rather than positive.

Six.—Monetary policy during most of 1967 had been relatively easy. Hence, monetary policy could be tightened thus doing whatever job needed to be done during the first half of 1968. Indeed, some argue in more general terms that the mix of U.S. monetary and fiscal policy must parallel that of Europe. In Europe, when meaningfully measured, it is argued that fiscal policy has been relatively easy and monetary policy has been relatively tight.

Thus, particularly in relation to balance-of-payments considerations, monetary policy should be relatively tight so that we do not have adverse money market flows in response to interest rate differentials between the United States and Western Europe.

Seven.—It is argued further that if it is judged that fiscal policy