

mands, with the result that military spending places greater pressure on domestic price levels. With national defense expenditures likely to reach \$85 billion in fiscal 1969, instead of the \$80 billion budgeted in January, our economy faces a heavy strain on resources.

The total impact of the Federal Government sector upon the economy and price pressures is shown most directly by the size of the Federal budgetary deficit. According to the January budget estimates, the deficit for fiscal year 1968 will reach \$19.8 billion and will total \$22.5 billion in the absence of increased taxation. For fiscal year 1969, the budget deficit would reach a range of \$25 billion to \$30 billion in view of the additional defense spending now in prospect. Coming on top of a resurgence of demand in the private sector and growing demands from our State and local governments, a Federal deficit of this dimension clearly is bound to create excessive demands and rapidly rising price levels.

Inflationary trends of recent months have been widely ascribed to "cost-push factors" in the economy, but the outlook for 1968 poses the additional danger of a "demand-pull" inflation based on excess demand for goods and services. If both types of inflation are allowed to exist simultaneously, reinforcing each other with successive price increases, a wage-price spiral of serious proportions is in prospect not only for 1968 but continuing into 1969 and beyond.

The threat of spiraling prices is a matter of great concern to everyone and especially to the life insurance business and its millions of policyholders, beneficiaries and pensioners whose benefit expectations, savings and living standards would be seriously eroded by price inflation. Because of its uneven impact upon different economic groups, and especially on those living on pensions or fixed incomes, inflation has been rightly described as the cruelest tax of all. Inflation poses a threat to the health of our entire economy and to our ability to sustain stable economic growth.

EFFECTS OF INFLATION ON OUR BALANCE OF PAYMENTS

The effects of inflation on our balance of payments are of great importance to our Nation. Our balance-of-payments position has sharply worsened within the past several months, dramatized by a drain on the U.S. gold stock of almost \$1 billion during the fourth quarter of 1967. While the causes of these payments difficulties are many sided, a basic element is the degree of confidence in the value of the dollar in the eyes of our trading partners abroad. Foreign financial interests are watching carefully the ability of the United States to control inflation. Consequently, the stakes in the fight against inflation are enormous, involving our ability to control forces which could jeopardize the position of the dollar in international finance.

If excessive demands are allowed to develop in 1968, one consequence would be to increase the volume of imports required by an economy under strain. Second, the inflation of domestic price levels that would result from an overheated economy would have a direct and continuing effect upon our ability to compete in world markets during 1968 and for many years to come. Not only would there be greater price incentive to buy imported goods because of lower relative prices abroad, but the rise in domestic prices would compound the difficulties of selling American products in foreign markets.