As the Federal budget is the most important single instrument of national economic policy, and for the indication of our great national priorities, I have also developed a model Federal budget as part of my equilibrium model (see my chart 15).

The goal for national defense set forth in this model budget does not represent intensive work on my part, since I can claim to no expertness of this subject, but represents instead what might be called the composite judgment of informed experts, assuming continuation of the cold war and the engagement in Vietnam for a now indeterminable period of time. The value of this assumption is that it provides a foundation for estimating how much of our growing GNP would remain available for the great domestic priorities, even if we found it necessary to continue to bear international burdens rising very substantially above current levels.

The specific goals for the great domestic priorities set forth in this model budget are based upon extensive study of needs among the various priorities depicted, reconciled in terms of feasibility with my equilibrium model as a whole.

I have always felt that exercises of this type, regardless of the quantitative differences between my estimates and those which others might make, are at the very heart of the original intent and current potentials of the Employment Act of 1946. After 22 years of experience under that act, it has become increasingly lamentable that the Council of Economic Advisers has not yet substantially picked up this prime responsibility of economics in the public service.

II. The Strategy of Stabilization Policy

I do not feel impelled to comment extensively upon this chapter of the CEA report. The analysis contained therein is rather thin and sketchy, and the chapter in my view achieves neither its avowed intent at the outset, nor its revealed purpose as it proceeds.

Selfpraise may be slight recommendation

At the outset (p. 58), the intent is declared to deal "with some of the lessons of recent economic experience as they apply to the current and foreseeable problems facing the economy." One would expect, from this declaration of intent, a penetrating analysis of mistakes in policy from the viewpoint of equilibrium analysis. For there certainly must have been some serious mistakes in policy, in that a real annual rate of economic growth of above 5 percent during 1963–66 was more than cut in half to a real economic growth rate of only 2.5 percent during 1966–67.

But instead of moving ahead with the avowed intent of drawing important lessons from experience, the chapter discloses for the most part the revealed purpose of rendering a generally complacent and laudatory account of how sensibly and flexibly national economic policies were adjusted to meet problems as they arose.

Wrong diagnosis and wrong cure, 1966–67

The Council states (p. 68) that "as of mid-1965, there was every reason to believe that the record of orderly progress could be extended. The expansion was characterized by remarkable balance in all sectors and strong forward momentum."