

and real gross national product grew only 2.5 percent—the smallest increase since the 1960–61 recession. (The difference can be accounted for only partially by the fact that Congress delayed enacting social security benefit increases which the Council had expected to be in effect by mid-1967). Had the surcharge been enacted, growth undoubtedly would have been less than 2.5 percent.

Looking back at 1967, the Council, which last year urged the fiscally restrictive surcharge, congratulates itself in this year's report on "the avoidance of recession (as) a major favorable development," and adds:

It was only because fiscal and monetary policy were operating in a stimulative direction that the expansion endured. [Emphasis added.]

The Council turned out to be correct in predicting that unemployment in 1967 would be "essentially the same as in 1966." But it was correct on that score largely because the lower-than-expected rate of growth retarded the rise of productivity and resulted in a reduction in average weekly hours worked.

FORECAST FOR 1968

The Council foresees an uneven pattern of economic activity in 1968 and concedes that, under that circumstance, "forecasting involves special uncertainties." More than half of the increase in GNP which the Council predicts for 1968 is accounted for by its forecast of consumer spending. But the Council is careful to note that:

For 1968, the consumer sector is clearly an area of particular uncertainty in forecasting private demand.

Since consumer spending will have an important influence on business spending, both for fixed investment and inventories, the uncertainties are compounded.

Given these uncertainties, it is reasonable to ask whether enactment of the tax surcharge would not involve a serious risk of raising the unemployment rate significantly above last year's 3.8 percent. The evidence suggests that the risk is very real.

The Council makes much of the "brisk pace" of the economy in the second half of 1967, noting, among other things, that "final sales increased substantially." The fact is, however, that in real terms the increase in final sales from the second to the fourth quarters of 1967 was only 1 percent—at an annual rate of only 2 percent. If allowance is made for the effects of the Ford strike—which the Council says "curtailed the annual rate of real growth by 1 percentage point over this period"—the annual rate of increase in real final sales would still be only 3 percent. This is a matter of some importance since the Council's case for the surcharge rests in large part on continuance of the impetus of the last half of 1967 into this year. That impetus was not very great.

Total GNP rose at a faster rate than final sales during the second half of 1967 because of a spurt in inventory accumulation during the last quarter of the year. In part, the additions to inventory were an aftermath of the Ford strike. They also reflect early preparations for a possible steel strike. The disappointing level of retail new car sales thus far this year suggests that further additions to the