

Given this 13-percentage-point drop in the operating rate, actual fixed investment expenditures in the industry in early 1968 could turn out to be lower instead of higher than in late 1967.

In broader terms, the Council's prediction of a \$4 to \$5 billion increase in total business fixed investment in 1968 is particularly surprising (except for such part of those figures as may be accounted for by price increases) in the light of the statement on page 125 of the report that "capacity utilization will show relatively little change" from 1967. The rate of capacity utilization in manufacturing averaged only 85.1 percent in 1967, according to the Federal Reserve Board.

It is not known, moreover, to what extent the respondents in the survey of investment plans for the first half of 1968 based their replies upon the assumption that the tax surcharge would be enacted. If any significant proportion assumed there would be no surcharge, the survey results would be overoptimistic in relation to the Council's forecast which is premised upon enactment of the surcharge. For the surcharge would have a double effect on investment expenditures. It would reduce directly the funds available for investment; and it would reduce incentives to invest by reducing both corporate and private demand for the output of new facilities.

The Council presents no quantitative estimate of the effect of the surcharge on fixed business investment. The forecast prepared by the research seminar in quantitative economics of the University of Michigan indicates that such investment would be reduced in real terms (measured in 1958 dollars) by \$2.4 billion below the level that would be reached if there were no surcharge. Imposition of the surcharge, according to this forecast, would convert an increase over the 1967 level of real investment into a decrease. Thus, any current dollar increase in investment, if it occurs at all, would be very small.

HOUSING

The Council expects private nonfarm housing starts in 1968 to exceed 11½ million and total residential building and modernization expenditures to increase \$5 to \$6 billion over last year's level. This forecast assumes enactment of the tax surcharge early in the year, availability of sufficient mortgage funds, and, apparently, continuance of present high—or possibly even higher—mortgage interest rates.

Here, too, it is possible that the Council may be overoptimistic. That National Association of Homebuilders predicts 1,400,000 housing starts for 1968 and recent signs of a leveling off in starts and in permits lend support to a forecast lower than the Council's. Month-to-month changes in both starts and permits tend to be erratic, making it difficult to form firm conclusions from the most recent data. However, the data for December 1967 and January 1968 (which were not available when the Council's Report was prepared) suggest that the rising trend of earlier months may have come to an end. Total private starts (on a seasonally adjusted annual rate basis) decreased by nearly 350,000 between November and December and the 200,000 unit recovery in January did no more than bring them back to the September 1967 level. The average of 1,344,000 for the most recent 2 months was below the July level. Permits, which are a signal of future starts, took a reverse course, rising in December by 165,000 (also seasonally adjusted annual