

the first half of 1968 no higher than the average level of the second and third quarters of 1967, with purchases of other nonautomotive durables up only 1 percent for the same period. Measured in real terms, this would mean a decrease in spending on nonautomotive durables.

Taking the above durable goods outlook together with prospective new car sales of 8½ million (which works out to about 7.7 million excluding overseas imports) indicated by the census survey, Professor McCracken concludes that they present "a picture of sluggish, flaccid demand."¹

The Council provides no clue to its expectations regarding 1968 consumer spending for nondurables and services. Spending in both areas will undoubtedly increase in 1968 because of population growth and price increases, if for no other reasons. But there are no strong indications that either will provide any special upward impetus to the economy. If the 1967 pattern persists, nondurable spending could be particularly disappointing. From the second to the fourth quarters of 1967, while the rise in GNP was accelerating from the laggard pace of the first half of the year, current dollar spending for nondurables slowed markedly. In real terms, nondurables spending was actually lower in the third and fourth quarters than in the second.

RATIONALE FOR SURCHARGE

At the very least, the evidence summarized above creates a reasonable doubt as to the likelihood of a dangerous upsurge of consumer spending. Yet, the Council appears to base its case for the surcharge on the theory that it is needed to siphon off potential consumer demand in order to avoid setting off an inflationary and unsustainable boom in business investment. The report says:

Without the [surcharge] withdrawal from personal incomes, consumer spending in the second quarter and thereafter would be substantially higher than that contemplated in the forecast given in Chapter 1. Responding to the additional consumer demand, business would attempt to raise output and employment. The resulting increases in wages, dividends, and other income payments would swell consumer incomes, and, in turn, lead to still further additions to consumer expenditures. Rising consumer spending, together with the failure of corporate tax rates to rise, would add to after-tax profits, providing both incentives and means for financing more business investment expenditures than would be the case if the tax increase were enacted. It is likely, in addition, that the greater consumer and business spending would lead to more rapid accumulation of inventories.

Thus the interacting forces of consumer and business spending would, via the well-known multiplier process, generate increases in money income and total demand that would far exceed the magnitude of the surcharge.

EFFECT OF TAX SURCHARGE

The Council has never spelled out publicly the method by which it makes its forecasts. Nor has it, in this year's report, shown quantitatively the changes in the various components of GNP and in the unemployment rate which it would expect in the absence of the tax surcharge.

¹ The new census survey, published as this statement was being reproduced, shows only slight improvement in the outlook for consumer spending. By far the greatest change was an increase of 3.1 percent in expected home purchase expenditures as compared to the preceding survey.