

4. The budget, using the unified budget concept, has been brought barely into a projected balance by the imposition of a tax surcharge from last year's \$25 billion deficit.

5. Many demands for Federal expenditure programs have been staved off by promises incorporated in legislative authorizations, without the provision of funds to meet them. The problem of establishing budget priorities has not been met but has been allowed to pile up.

6. The prudent structuring of the debt has had to be deferred as a result of the ceiling on interest rates for longer term securities. As a result the average maturity of the outstanding marketable debt has been allowed to decline to 4 years, from 5 years 4 months at the beginning of the Vietnam buildup. This presents an obstacle to anti-inflationary monetary policy. In its first refinancing the new administration did offer the longest maturities permitted by existing interest rate ceilings.

There is little room for choice among feasible and desirable courses for the economy in 1969. In general we agree with the picture for the year as a whole drawn by President Johnson and his Council of Economic Advisers in their January 1969 Economic Report. Gross national product for the year as a whole should be about \$921 billion. Average unemployment for the year would be less than 4 percent. The year-to-year price increase, as measured by the GNP deflator, would be around $3\frac{1}{2}$ percent. This would serve the imperative need to initiate a perceptible decline in the rate of inflation. This result should be achievable with the recommended budget and appropriate monetary policy.

We are, however, less confident about the feasibility or desirability of the pattern of developments expected through the year and about the policy by which this pattern is to be achieved. The economic reports are not entirely explicit about this but we believe that the picture can be fairly summarized as follows:

The rate of expansion would slow down markedly in the first half of 1969. The fiscal restraint initiated in mid-1968 would have more of its expected impact and to this would be added the effects of the social security tax increase of January 1, 1969, and the tighter money that began in the latter part of 1968. In addition, there would probably be some decline in the rate of inventory accumulation. The slowdown would not be so great as to cause an actual reduction in output, but output would grow much less rapidly than in 1968 and unemployment would rise slightly. The most important effect would be a decline in the rate of inflation, which would continue to influence the trend of prices subsequently. After midyear, according to the report, the increase of output would quicken, but would remain at a rate below the growth of potential. The rate of inflation would continue to decline and the rate of unemployment would continue to rise, both slowly. The unemployment rate at the end of the year would still be below 4 percent. The rate of expansion foreseen in the second half of the year would require or permit some easing of monetary restraint after early 1969, especially since fiscal restraint would be continuing.

Our main concern with this projection of 1969 is that it may not bring us to the end of the year with the rate of inflation perceptibly