national product will rise in 1969 by about $60 billion to a total of around $921 billion for the year, and this estimate is in accord with that of many private forecasters. An increase of about 6 percent is foreseen between the final quarter of 1968 and the fourth quarter of 1969, with a projected rise of less than 3 percent in real output and an increase of a little more than 3 percent in overall prices. This estimate implies a diminution in the rate of inflation during the coming year as compared with the price advance of recent quarters. While we would regard this degree of reduction in the inflation rate as a desirable objective, we also believe that this goal may prove difficult to attain unless gradual but persistent restraint is applied through checks on Federal spending, extension of the 10-percent income tax surcharge, continued restraint in monetary policy, and programs to improve productivity.

POLICY FOR RESTRAINT OF INFLATION

Effective action to break the grip of inflation and counter the threat from a deepening inflationary psychology requires a policy of simultaneous restraint in four major areas, as outlined below.

1. *Federal spending* should be kept in check to avoid greater pressures on aggregate demand and to permit a balance or surplus in the Federal budget. The ability of the Congress and the executive branch to curb the growth of spending programs has been demonstrated by the Revenue and Expenditure Control Act of 1968. It is clear that the pressure of inflation during the present fiscal year would have been even greater in the absence of this measure, but the need for continued holdbacks in Federal expenditures is no less pressing today than a year ago.

In our view, the $3.4 billion Federal budgetary surplus that is projected for fiscal year 1970 in the Economic Report and in the Budget Message operates in the proper direction of fiscal restraint. But this planned surplus could be easily jeopardized or even reversed if the Congress relaxes its careful scrutiny of spending programs in both the civilian and military areas. Previous budget analyses have demonstrated how sizable are the budget outlays which are "relatively uncontrollable" as a result of commitments under Federal programs adopted in earlier years or enlarged by previous legislation. Accordingly, the need for close review of new proposals or expanded programs is heightened by the narrowing of congressional discretion over current spending.

2. *Extension of the 10 percent tax surcharge* is essential in the present budgetary situation to achieve the budget surplus needed to maintain fiscal restraint in an inflationary economy. The life insurance business urged the imposition of an income tax surcharge on both individuals and corporations in August 1967, and we now favor extension of the 10 percent surcharge for the fiscal year ending July 1, 1969, as proposed in the Budget Message and the Economic Report. Failure to renew the surcharge beyond its June 30 expiration would lead to a Federal deficit in fiscal 1970 of about $5½ billion—a fiscal position which would be wholly inappropriate to the present economic outlook of excessive demand and continuing inflation.