

# Predict 1968 Will Be Big Year For U.S. Business

ANN ARBOR—Despite problems and worrisome conditions, 1968 will be the best year yet for American business, University of Michigan economist J. Philip Wernette predicts.

Wernette cites as one of the worrisome conditions the notion that a continuation of American prosperity depends upon military spending. He disagrees.

"Recently this fear (of a decline in military spending) was expressed in an elegant and perhaps even persuasive form as a 106-page monograph entitled 'Report from Iron Mountain on the Possibility and Desirability of Peace,' " Wernette notes.

"The authorship of the monograph is unknown; but it purports to be a report from a group of scientists meeting in a 'think tank.' One of its principal propositions is that a cessation of military expenditure would be extremely harmful for the American economy."

"NEITHER HISTORY nor theory supports this proposition," Wernette declares. "In two years at the end of World War II, military expenditure dropped from \$47 billion to \$15 billion and aggregate demand—the gross national expenditure—dropped almost imperceptibly from \$210 billion to \$208 billion as civilian demands rose almost as fast.

"It will be noted that military expenditure was 42 per cent of the total and that the decline amounted to 34 per cent of the 1944 figure."

At the present time, Wernette noted by way of contrast, military expenditure is 9.5 per cent of total spending. "If it were to drop to zero (which appears to be a mythical hypothesis) the hole that would have to be filled would be very much smaller than the chasm that yawned at the end of World War II and could easily be offset by appropriate cuts in tax rates and, if necessary, an expansionary monetary policy.

Wernette, observes that "if the lull in the spring of 1967 is not counted as a recession the year marked the seventh year of business expansion, which is a new record."

The length of this expansion, he adds, has generated concern among some persons who believe that a business expansion necessarily digs its own grave.

"THIS OPINION is mis-

Wernette insists. "The outlook for 1968 is for a continuation of business expansion. Surveys suggest that both consumer expenditures and business investment will rise modestly in 1968. Government expenditures will continue to increase.

"The gross national expenditure will probably increase \$60 billion, equal to a little more than 7.4 per cent, accompanied by a 3.7 per cent increase in real output and a 3.8 per cent rise in the commodity price level. Wage rates will rise by 6 per cent, personal income will go up, and business profits—both before and after taxes—will gain a little.

"The strength of the American private enterprise system will be demonstrated anew in the coming year as the American economy registers substantial growth, along with continuing inflation."

WERNETTE EXPECTS a less expansionary Federal Reserve policy in 1968, and some restraint in government spending. He doubts that the proposed surtax will be enacted at a 10 per cent rate applicable to the entire year.

The recent slow rise in consumer expenditures and the higher than usual rate of personal saving suggest that people have been concerned about the proposed tax hike.

The surtax would affect inflation only slightly, Wernette concludes, adding, "It is time to scrutinize the size of the federal government and inflationary weapon than is a tax increase."

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