F. Resultant economic policy problems for 1967

The previous criticisms notwithstanding, some positive impacts of governmental economic policy during this period also need to be acknowledged. A fundamental requirement on such policy was most successfully achieved—the large and rapid shift of resources from civilian uses or idleness to military programs.

In this vein, Budget Director Charles J. Schultze stated recently to the House Ways and Means Committee:

"Our military effort in Vietnam has not suffered in any way from a shortage of funds. We have provided every plane, every gun, and every cartridge needed to support operations in Vietnam." [65]

At the same time, direct controls over prices, wages and materials generally were avoided (set-asides were in force for copper and a few other key materials). Moreover, economic growth and real improvement in the living standard of the average American continued despite the defense spending increases and the inflation.

In real terms—that is after making allowance for price rises—U. S. Gross National Product rose from $614 billion in 1965 to $648 billion in 1966 (in 1958 dollars), a growth rate almost equal to that of 1965. Increases also occurred in 1966 in real disposable income per capita and in personal consumption expenditures per capita.[66]

In commenting on economic trends in the American economy in 1966, Gardner Ackley told the Joint Economic Committee the following:

"It is far from a perfect record. But I think if one looks at it in the large, in terms of the outcome for the year as a whole, it is a record of which we can be pretty proud." [67]

Nevertheless, in retrospect, it can be argued that a major error occurred in domestic policy in the United States during 1966. In this era of sophisticated information systems, it still seems that a parallel can be drawn with the prehistoric brontosaurus whose internal communication system was so primitive that when another animal started chewing on the end of its tail, it lost its entire tail before the news reached the brain.

Somewhat analogously, *during much of 1966, especially the first half, the Nation and its economists were occupied with congratulating themselves on the success of the 1964 tax cut—when the problem suddenly had become combatting inflation rather than unemployment.*

A three-fold dilemma resulted from the various developments already covered in this study:

1. The Nation was not fully aware of the economic implications of the U. S. buildup in Vietnam.
2. Economists were not generally cognizant of the timing problems in evaluating the economic impact, and
3. Neither public officials nor private opinion were agreed as to either the need for or the nature of additional public policy measures to be taken.

Many, of course, were not convinced of the need for tighter fiscal policy, particularly in view of the Federal Reserve's tightening monetary policy. Others who would have preferred a tax increase to the extreme credit stringency did not believe that the Nation would accept so sharp a turn in fiscal policy—from tax reduction to tax increase—so quickly. Finally, even those who preferred the route of reducing government expenditures seemed to think that the Federal budget only contained two high-priority categories, defense programs and Great Society endeavors, overlooking the vast array of outmoded subsidies and special benefits.

It became clear also that, although the wage-price guideposts might be effective during a period characterized by mild cost-push inflationary pressures in an environment of some economic slack, they did not work as well during periods of demand-pull inflation such as characterized 1966.

Other negative results of the 1966 experience may be in terms of the legacy bestowed upon the future. To what extent will cost-push inflationary pressures dominate the American economy in 1967 after the aggregate demand-pull

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[65] U.S. House of Representatives, Committee on Ways and Means, *Temporary Increase in Debt Ceiling,* January 1967, p. 10.
[66] *Economic Report of the President,* January 1967, pp. 214, 232.
[67] *Hearings on 1967 Economic Report,* Part 1.