

the growth of credit supplies below the large increases that were being demanded. Declines in residential construction and in commercial building offer eloquent testimony to the potency of tight money in curbing demand.

POLICIES TO IMPROVE THE BALANCE

Thus, although defense spending kept forging ahead, the tools of general economic stabilization were able to achieve a quite satisfactory overall rate of economic advance this spring and summer. But the pattern of this deceleration was not equally satisfactory. It turned out that general monetary tools had, in fact, operated very selectively on the homebuilding industry and had barely touched business investment expenditures, apart from commercial construction. Capital spending demands moved ahead with undiminished vigor and put intensifying pressures on our machinery and equipment industries.

With administration support, Congress enacted financial legislation designed to improve the balance in our capital markets: FNMA's ability to support the home mortgage market was strengthened, and regulatory agencies were given new authority to set ceilings on the interest rates paid on savings by financial institutions. The Federal Reserve used this new authority along with its existing powers in several ways to smooth out the pressures in financial markets.

But fiscal policy was also needed to deal with the remaining imbalances. On September 8, the President announced a cutback and holddown on civilian expenditures. He also proposed to Congress two additional fiscal steps—the temporary suspension of the 7-percent tax credit for equipment and of accelerated tax depreciation on new structures. Once enacted, these measures should help to take some froth off the investment boom and thus to ease the strong pressures on financial markets and skilled labor supplies that the capital boom has generated.

As we look back over the past year, the most notable blemish on our economic record is the 3½-percent rate of price increase that we have experienced at both wholesale and retail. That rate of increase is considerably larger than we can reasonably tolerate over any extended period; in fact, a major goal of public policy for the year ahead must be to work back toward price stability.

It is important, however, to see these price increases in perspective. The fact that much of the rise has taken place in food prices offers no particular comfort to the housewife. But it is significant because, unlike some industrial prices, these prices are flexible in both directions. It is also significant because the spurt in food prices reflects several special and probably temporary circumstances within agriculture as well as the rising demands of a rapidly growing economy. Apart from farm products and foods, wholesale prices are up 2.3 percent in the past year; and the consumer price index, excluding food, shows a rise of 2.9 percent. For nonfood commodities, the increase of consumer prices was 1.8 percent.

Any objective appraisal of consumer welfare must look at both sides of the equation—the incomes people have to spend as well as the prices of the goods they buy. Such an appraisal makes clear that all major groups have recorded substantial gains over the past year. The key to consumer welfare lies in wages and salaries, which represent more than two-thirds of total family income. Total payrolls have risen 10