others, were related to the excessive total demands for goods and services during 1966. This article examines: (1) public policy factors affecting the demands; (2) the resulting demands for goods and services and the accompanying rises in production, employment, and prices; (3) credit and interest rate developments; and (4) some economic trends, prospects, and choices developing in late 1966.

Public Policy Factors Affecting Total Demand

The two chief factors influencing the course of spending are fiscal and monetary developments. Some analysts see fiscal policy as dominant, while other view monetary policy as more effective. Direct Government spending and taxing are commonly thought to play more important roles in determining total demand than their size might indicate for two reasons: (1) Government spending and taxing are based largely on political, military, and welfare considerations and are not directly a function of current or expected income; and (2) a one dollar change in Government spending or taxing will generally lead to more than a one dollar change in total spending because of the effects on disposable incomes of consumers and businesses, which, in turn, influence their spending.

Monetary actions may have as great or greater impact on economic activity. Changes in the stock of money held by individuals and businesses relative to their desire to hold it as an asset influence spending. Linkages between money and spending may be through such variables as interest rates, credit availability, and liquidity.

FISCAL DEVELOPMENTS

Since mid-1965 the U.S. Government, through its current taxing and spending programs, has exercised a strongly stimulative influence on total demand for goods and services. The overall relation between tax rates and the provision for expenditures has been the most stimulative in over a decade. At the same time, total tax receipts of the Government have been rising rapidly, largely because of the growth in private incomes. As a result, the total impact of the Federal budget, including the effect of the so-called automatic stabilizers, has been less stimulative than current programs alone would indicate.

Recent Federal Government fiscal developments may be examined in the light of alternative ways of measuring receipts and expenditures of the Federal Government.[1] There are four budgets of the Government in common usage. The administrative budget is the basic planning document of the Government. The cash budget measures the cash flow between the Government and the rest of the economy. The national income accounts budget summarizes the receipts and expenditures of the Federal Government sector as an integrated part of the recorded activities (i.e., the national income accounts) of all sectors of the economy. The high-employment budget is an estimate of the national income accounts budget which would prevail at a specified rate of resource use.

[1] For a fuller discussion of various budget measures, see Keith M. Carlson, "Budget Policy in a High-Employment Economy," in the April 1966 issue of this *Review*.