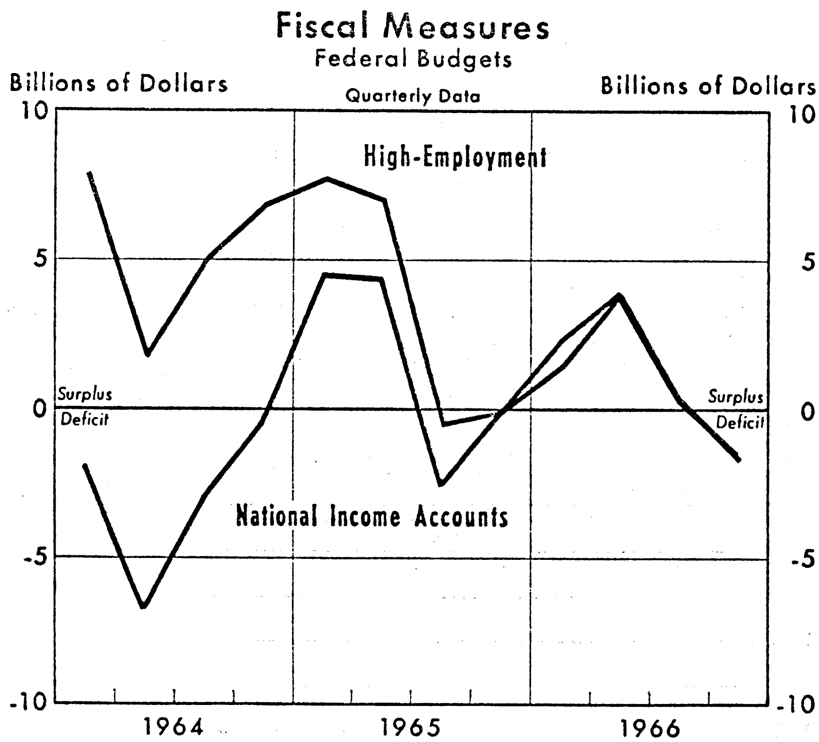
from early 1961 to early 1965, and became very stimulative in late 1965. The marked shift in the posture of the Government since 1906 resulted from the investment tax credit and liberalized depreciation guidelines in 1962, tax cuts in 1964 and 1965, increasing expenditures for the Vietnam conflict, and greater outlays on welfare programs.



Sources: U.S. Department of Commerce, U.S. Treasury Department, Council of Economic Advisers, and Federal Reserve Bank of St. Louis
Latest data plotted: 4th quarter estimated by this bank

Government actions were probably even more stimulative in late 1965 and early 1966 than indicated by the high-employment budget. Government outlays are recorded in this budget when goods are delivered; yet the economic impact begins soon after orders are placed. The defense buildup was accelerating rapidly because of the war in Vietnam. Contracts were let in great volume, production increased markedly, and employment rose, but deliveries of goods were relatively small in the early months of the buildup.[3]

Government debt-management operations were also expansionary during 1966. Because of the legal maximum interest rate of 4¼ percent on new issues with maturities of over five years, the Treasury was forced to finance with relatively short-term issues, adding to the liquid assets of the public. Average maturity of the publicly held Federal debt declined from 63 months in 1965 to less than 59 months in the January-October 1966 period.

[3] A detailed analysis of this effect was presented by Murray Wiedenbaum in a paper entitled "The Federal Budget and the Outlook for Defense Spending" at the University of Michigan Economic Outlook Conference on Nov. 18, 1966.