OUTLOOK

At the beginning of 1966 economic stabilization required containing excessive demands for goods and services, thereby moderating inflationary pressures. In the early months of the year, the problem was aggravated by rising contracts and expenditures for the Vietnam conflict and a reluctance either to reduce social programs or to increase tax rates. Monetary actions also were stimulative, partly because the huge demands for funds caused rapid expansion of commercial bank demand deposits even at rising levels of interest rates.

In the fourth quarter of the year the major task may have shifted from one directed primarily to restraining exuberance to one of maintaining an optimum growth in total demand. By late 1966 total demand had lost some of its strength, and concern was being expressed over whether adequate expansion of total demand and of real product would be continued in 1967.

The problem of achieving appropriate total demand in 1967 is complicated by cost-push inflationary pressures which are strong at the end of 1966 and which could be easily reinforced by excessively expansive fiscal add monetary actions. Even if total demand is one which in the long run might be considered optimal, many prices are likely to increase seriously in 1967 because of the excessive total demand and price increases for the past year. Prices do not always rise immediately in response to demand-pull forces; some have been held back because or guideposts, and others have been restrained because of contracts (including wage contracts). Many wage rates and other prices are expected to be marked up in 1967 because of the excesses or 1966 (these increases will place cost-push pressures on other prices, and it is unlikely that there will be enough offsetting price declines to prevent undesirable general price increases.

At year-end it appears that the combination of monetary and fiscal developments may not have to be so restrictive in the coming year as it has been since the spring of 1966. Total demands for goods and services have probably slowed, and a further reduction might cause an unwarranted contraction of employment and real product.

The mix of policy actions must also be selected. If lower interest rates are judged desirable in order to stimulate areas such as housing and other private investment and to foster real growth in the private economy, emphasis might be placed on a combination of restrictive fiscal policies with expansive monetary actions. If large declines in interest rates are believed undesirable because of a likelihood of increased outflows of funds from the country, reliance might be placed on a policy mix with relatively stimulative fiscal actions and quite limited monetary expansion.