midyear budget review (with revised projections) was not released to the public in 1966. To assure a free and fully informed discussion and interchange of ideas both inside and outside of Government, it would be desirable to have official revised projections frequently, possibly on a quarterly basis.[4] A midyear review in July or August after Congress has made most of its decisions would seem more reliable for the ensuing year than the 12-month forecast made in January. The CEA report focuses primarily on the immediate 12 months, while the budget concentrates on the 12-month period beginning next July 1.[5]

To form a basis for a discussion of budget policy in future months, this article summarizes and evaluates economic developments, budget conditions, and monetary developments in calendar 1966. The budget program through June 1968 is then summarized and analyzed within a framework emphasizing total stabilization policy. An appendix is provided that discusses alternative budget measures.

Budget Policy and Economic and Monetary Conditions in 1966

Real economic activity advanced rapidly in 1966, but advances were constrained by the size of the labor force and limitations on plant capacity. Employment, production, and income all increased, though less rapidly than in 1965 when some economic slack remained.[6] As a result of total demand pressing on available resources, prices rose significantly, particularly early in the year. In an attempt to limit excessive total demand and price increases, monetary expansion was restricted beginning in the spring. Intense demands for credit produced rising interest rates early in the year, while limitations on credit expansion accelerated the rise during the summer.

The Federal budget, on balance, was a strong force underlying the buoyant economic situation in 1966. Government expenditures grew rapidly as spending for defense and health, education, and welfare programs rose sharply. Federal revenues also increased rapidly, partly in response to rising money incomes but also in some measure because of increases in tax rates.

RESOURCE TRANSFERS IN 1966

Total income and output showed advances substantial enough to keep the economy at high employment during 1966. Real output (GNP in constant dollars) rose 4.1 percent in the year ended in the fourth quarter of 1966, with the advance most rapid in the first quarter.

The year 1966 was marked by the necessity to allocate resources to military use more rapidly than total available resources were growing. Such a transfer of resources is facilitated if there is a considerable quantity of unused resources in the economy, as was the case at the outbreak of the Korean conflict. The Vietnam war was escalated at a time when there was very little slack in the economy.

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[4] A similar recommendation has recently been made by the Joint Economic Committee of Congress. Although revised budget projections are not made available, data on realized expenditures and revenue, are readily available. See, e.g., the *Survey of Current Business*. For a brief quarterly analysis of these datas see "Federal Budget Trends," a release of the Federal Reserve Bank of St. Louis.

[5] Since there is some evidence to support the view that the budget affects economic activity with some lag, see, e.g., Albert Ando and E. Cary Brown, "Lags in Fiscal Policy," *Stabilization Policies*, research studies prepared for the Commission on Money and Credit (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1963), it would seem that the budget for fiscal 1968 (year ending June 30, 1968) must afford a basis for an economic plan for a year beginning in, say, October 1967 or January 1968. If the primary concern of the Economic Report is the state of the economy in calendar 1967, it would seem that the budget for the year ending June 30, 1967, is more relevant than the budget for the year ending June 30, 1968.

[6] For an extended discussion of economic developments in 1966, see the December 1966 issue of this *Review*.