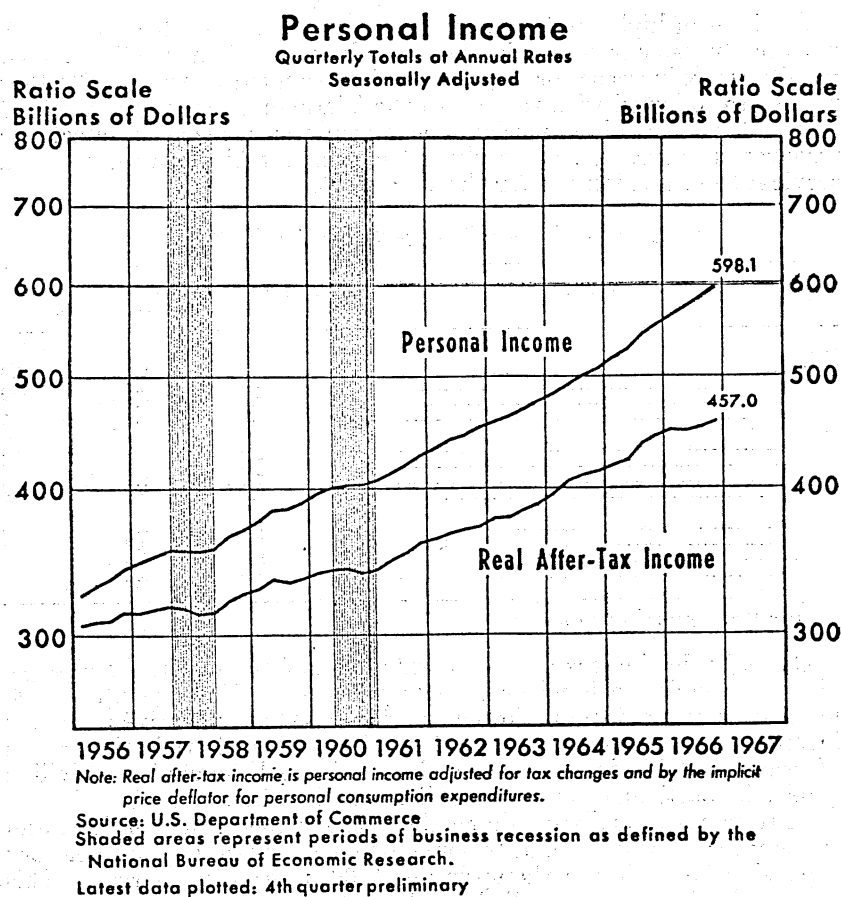




and creates distortions that may be in conflict with national goals of efficient resource allocation and equilibrium in the balance of payments.

STABILIZATION POLICY IN 1966

The fiscal actions that were supposed to restrain demand in 1966—social security tax increases, speedup in the collection of individual and corporate income taxes, and rescission of scheduled excise tax cuts—came too late to thwart the inflationary pressures of the first quarter.⁷ In fact, there is some question whether the 1966 first quarter experience could have been avoided (or offset) by budget actions as late as January and February of that year. Because of lags in the effect of stabilization policies, the stage may have been set for an inflationary period by a very stimulative fiscal situation in late 1965 supplemented by rapid monetary expansion in late 1965 and early 1966. The Vietnam buildup in the last half of 1965 was accompanied by excise tax reductions and a large retroactive increase in

⁷ Normally a change in collection procedures is not viewed a restrictive action because individuals and firms supposedly react to changes in liabilities rather than collections. The speedup is mentioned here, however, because the 1966 CEA Report listed this action as restrictive in its effect on total demand. See pp. 53-54.