

social security benefits. The money stock expanded at a 6-percent annual rate from April 1965 to April 1966. Other key monetary variables, such as commercial bank credit and member bank reserves, also increased very rapidly during the year ending in April 1966. This combination of monetary and fiscal forces may have been sufficient to cause the first quarter 1966 excesses and the carryover with respect to prices in the second quarter (even though the advance of GNP slowed substantially in that quarter).

The restrictive budget measures that were effected—increased social security taxes, accelerated tax collections, and rescinded excise taxes—may have helped to slow the economy after the unsustainable advance in the last half of 1965 and the first quarter of 1966. These fiscal actions represented restraining factors in addition to the April turnaround in monetary growth and the implicit tax increase through inflation. Although Government expenditures rose substantially in the first half of 1966, these increases were more than offset by the increase in tax revenues, and the national income accounts (NIA) budget showed a surplus of \$3.1 billion compared with a \$1.4 billion deficit in the last half of 1965.

During the second half of 1966 Federal expenditure increases outpaced the growth in receipts, resulting in a \$2.7 billion deficit in the NIA budget. Expenditures for the Vietnam war continued to rise, and some domestic nondefense expenditures also rose, particularly those related to the medicare program. No direct tax increases became effective in the second half, although in October the investment tax credit was rescinded and depreciation allowances for tax purposes were tightened. These measures probably had little effect on tax revenues in 1966, although they may have affected total demand via investment decisions.

Money Stock

