As you know, the economy is in a period of unparalleled growth. In the past 6 years, our Nation's gross national product has risen at an average of 5½ percent in constant prices. The rate of unemployment has dropped from 7 percent in the early part of 1961 to under 4 percent. Nearly 9 million new jobs have been created. Plant utilization has risen from 79 to 91 percent and output per man-hour is 19 percent higher than in 1961.

Just in calendar 1966 alone, real GNP rose by almost 5.4 percent, more than 3 million nonagricultural jobs were found, and personal incomes and corporate profits after taxes grew by about 8 percent.

Fiscal policy played a major role in the overall performance of the economy during recent years. Economic expansion received a special stimulus from the major Federal tax revisions and reductions adopted in 1962, 1964, and 1965. These tax measures were a major factor in closing the gap between actual and potential output by fostering a substantial reduction in the excess capacity which was dragging the economy down at the end of the last decade.

As the economy moved toward full capacity operation, however, increased military demands and expanding business investment brought inflationary pressures late in 1965 and in 1966. Our price performance in 1966 was not up to what we had earlier hoped. After a number of years in which large increases in output were accompanied by very slight increases in prices, the last 18 months saw a 4.2-percent rise in consumer prices and a 3-percent rise in wholesale prices. Yet, even here, the price rise was very substantially below the similar period of the Korean war, and, as a matter of fact, below a similar 18-month period during the last time of full employment; namely, 1956–57.

Fiscal policy was brought into action during 1966 to help stem inflationary pressures. In response to the President's recommendations, some excise taxes were restored, taxpayments were accelerated, and last fall tax incentives for investment were suspended. The prompt cooperation of the Congress was an important element in enabling fiscal policy to be used as a tool for economic restraint, as it had earlier been used for economic stimulation.

In addition to last year's revenue measures, the administration undertook an effort to defer, stretch out, or reduce Federal programs wherever possible. As a result, Federal agencies are reducing and deferring program obligations, commitments, and contracts by a total of $5.2 billion during the current fiscal year. The associated effect on expenditures is estimated at $3 billion. The action involved in the deferrals and cutbacks ordered to date are under constant review. Should economic conditions require it, some funds now being withheld may be released. At the same time, we are seeking additional areas where postponements or stretchouts can be accomplished.

The tax and expenditure actions taken last year played an important part in the moderation of inflationary pressures we have experienced during the last few months. Now, what of the year ahead?

The 1968 budget proposals are framed to carry out the following objectives:

First: to provide all the resources needed to support our commitments in Vietnam.