

bility to deal with the problems we have had for the past year and a half, without any necessity on the part of the Government to move into so-called direct controls.

We have had smaller price rises than in earlier periods. Last year's successful transition was aided by a significant shift in economic policy from stimulus in the last quarter of 1965 to measured restraint through most of 1966. The shift in policy was instrumental in relieving the economy of growing price pressures induced by the heavy demands of the defense buildup. Nevertheless, some strains and imbalances emerged during the year, and these will require our continuing attention.

Economic achievements were impressive last year:

- Industrial production rose 9 percent;
- Net income per farm rose more than 10 percent;
- Two million more workers found employment;
- Unemployment averaged below 4 percent;
- Corporate profits climbed 8 percent.

On the international side our gold loss was cut more than 50 percent—a loss due entirely to purchases by France. Except for these French purchases, we would have gained nearly \$200 million of gold from foreign countries.

On an "official settlements" basis, our balance of payments recorded a small surplus, for the first time since we began to keep such records in 1960. Mr. Chairman, you are familiar with this measurement, since your report as chairman of this committee's Subcommittee on Statistics developed the merit and utility of the official settlements concept. The deficit on a liquidity basis was up only slightly despite the increased drains directly due to Vietnam.

But there were problems, too. On the domestic side, prices rose more than usual, money markets became extremely tight, interest rates rose to excessive heights, and the accustomed flow of mortgage money fell off sharply. A severe adjustment was imposed on the housing industry, only now in process of recovery. On the international side, our trade surplus slipped as a rapid expansion in some sectors of the economy, particularly the defense sector and the plant and equipment sector, pressed very hard on our capacity to produce.

In the last quarter of 1966, it became clear that many of the heavy pressures on the economy had abated. Although unemployment remained low, sales and production increases slowed, larger inventory increases occurred, and surveys indicated a slower growth of investment. This made possible a welcome easing of monetary conditions and our position of fiscal restraint moved to a measured stimulus.

With different conditions facing us this year, we aim at a different mix of monetary and fiscal policies designed to keep the economy moving ahead steadily and safely. As noted, a monetary easing began in late 1966. The President's fiscal program will complement monetary easing by maintaining stimulus in the first half of calendar 1967. Later this year, when less stimulus is expected to be appropriate, the fiscal program is expected to encourage a continued monetary easing by moving toward modest fiscal restraint. This can be done by avoiding tax increases now, but financing through tax revenues the additional expenditures of our defense effort in fiscal 1968. Working in tandem, monetary and fiscal policy can continue to foster the healthy