financial environment within which our economy has flourished during the past half dozen years.

Economic Developments in 1966

With the President's Economic Report before you, there is no need to review the broad sweep of economic developments during 1966 in any detail. However, I would like to comment on major accomplishments—and unsolved problems.

In the sixth year of the current expansion, our gross national product increased a shade more than 8½ percent in money terms and by about 5½ percent after allowance for rising prices. The enormous productive power of the economy was bolstered by a record increase in industrial capacity, reflecting, in large part, the successful use in past years of investment incentives.

This added capacity helped meet the strong rise in defense and civilian production in 1966. Despite the emergence of the selective pressures that required by late summer the temporary suspension of the investment tax credit and accelerated depreciation, higher production was achieved with only about a 2-percent rise in the industrial component of the Wholesale Price Index. Let me note, in contrast, that industrial prices rose more than 10 percent between 1950 and 1951 under the pressure of the Korean buildup, and by more than last year's 2 percent in both 1956 and 1957, when no comparable defense buildup took place.

We can take satisfaction from the fact that unemployment averaged only 3.9 percent last year. There can, however, be no complacency about the unemployment problem while much higher rates persist for teenagers, minority groups, and the disadvantaged. Significant reduction of these higher rates is unquestionably a matter of high national priority. But further reductions in unemployment must increasingly depend upon our intensified efforts to improve training and educational facilities, upgrade skills, and remove remaining discriminatory barriers to job opportunities.

The economy cannot continue to grow as rapidly now as it did earlier in the expansion when there were relatively large amounts of unutilized industrial capacity and unemployed labor upon which to draw. Were we to permit or encourage total spending in the economy to rise as rapidly as it did last year, the result could only be sharply rising prices, undue strain on the balance of payments, and likely an eventual recession with a retreat to much higher rates of unemployment.

With the combined impact of sharply higher defense requirements, and the business plant and equipment boom, the economy did begin to pick up too much speed in late 1965 and early 1966. The need this posed for a shift away from fiscal stimulus was fully recognized last year when I appeared before your committee, and in the economic program we placed before the Congress at the outset of the year. A program of fiscal restraint, additional to the January 1966 increase of $6 billion in payroll taxes, was contained in President Johnson's budgetary recommendations of a year ago. Prompt congressional action on the Tax Adjustment Act of 1966 enabled fiscal policy to move to a more restraining position early in the year.