finest military establishment, at the highest point of readiness, ever known.

Finally, to complete this brief summary of Republican disarray, Governor Romney—whose silence had until then been his chief distinction on this subject—came upon the scene in December entirely innocent of what has been transpiring during the previous 11 months of the year and recommended the very policy mix the administration had been following throughout the year: "* * * a combination of tax increases and firm budgetary policy."

So much for positions taken last year.

Let us take a closer look, although a brief one, at some of the main developments in 1966. I would like to start with a review of expectations at the outset of the year, for these expectations set the tone of the year.

The program of fiscal restraint proposed in the January 1966 budget was developed against Government expectations for economic activity in 1966 that was far more realistic than those of nearly all private forecasters.

In January 1966 the Government projected a 6.9 percent increase in 1966 GNP—a rise of $46 billion to $722 billion on the basis of the national account levels then prevailing.

In contrast, the median private economist's forecast of 1966 GNP made during the September 1, 1965, to January 24, 1966, period was $713 billion, according to a survey of forecasts made by the Federal Reserve Bank of Philadelphia. At the end of September, a poll of the National Association of Business Economists projected 1966 GNP at $700 billion; the Pittsburgh Conference on Business Prospects in October projected slower 1966 growth than in 1965; Steel's Panel of Experts projected $702 billion in October; the Michigan University econometric model projected $712 billion in November; Prudential Insurance projected $714 billion in November; McGraw-Hill projected $711 billion in December 1965; Moody's Investor Service projected $710 billion in December; etc.

SIGNALS OF SLOWUP IN 1966

A large number of developments signaling the need for caution in economic policy emerged during the course of 1966, in contrast to the dominant pattern of overall expansion. A chronology of those developments includes:

While *first quarter 1966 GNP* scored one of the largest increases since the Korean war:

Standard & Poor's stock price index declined in February, initiating a descent which continued throughout 1966. Stock prices in March declined nearly 5 percent below the January peak.

Contracts for construction included in the commercial and industrial building statistics declined 6.0 percent in March, and thereafter continued down through most of 1966. Until late in the year, when the effects of the suspension of the accelerated depreciation provisions for building under the President's anti-inflation program were felt, this decline was chiefly felt in commercial building, such as shopping center projects, due to tight money.