

where it is likely to go, in the light of the policy decisions we wish to make. We have learned to look ahead.

The increasing flexibility of our responses to changing events has been demonstrated. In the face of uncertainty, flexibility is necessary. The quicker we are able to adjust the less we need fear uncertainty. Today we are operating with an economy which has moved forward since 1961 to close the gap between actual and potential output. The gap was closed last year. Now we have to operate in an economic setting which will preserve balance while the economy grows at a more moderate pace. But balance in total demand and supply does not mean balance for every element within these grand aggregates. We have to watch each element and the balances in each sector carefully. But we should be thankful we are concerned with specific imbalances and not with problems of total imbalance, with all that the latter implies for spiraling inflation or deflation.

If we have to live in a world of uncertainty, it is better to have uncertainty at full employment than to have the harsh certainty of boom or bust.

We should welcome a situation in which business cycle prognosticators are kept in a continuous ferment. In the long run we hope to put them out of business anyway.

THE CURRENT STATUS OF THE ECONOMY AND RECENT SHIFTS

In my judgment, the President's Economic Report presents a cogent analysis of recent economic developments and a clear appraisal of the economic prospects and problems which we are likely to face in the year ahead.

Over the past year the economy has forged ahead at an exceptionally high rate. Real output recorded another sizable gain—5.5 percent. A major accomplishment was the reduction of unemployment to a rate of less than 4 percent, the first time since 1953 that such a low rate has been achieved. Civilian employment in 1966 increased by an average of 1.9 million with all major groups in the labor force benefiting in varying degrees. The purchasing power of our people, as measured by real disposable income per capita, advanced by 3.6 percent.

But our overall accomplishments were by no means uniform, either by industry or by groups of persons. The homebuilding industry, for example, suffered a severe setback and many groups in our society are still in an impoverished or otherwise underprivileged status. And we cannot forget the sacrifices being made by thousands of our men in the Armed Forces fighting the war in Vietnam.

Furthermore, the rapid expansion has resulted in some serious imbalances which must be corrected in the coming months in order to achieve a sustainable and healthier economic growth. In some sections of the economy, the combination of a relatively tight supply situation and rising costs brought on serious inflationary tendencies, thus interrupting the relative price stability that we had enjoyed in the preceding 6 years. Fortunately, in the latter part of 1966, some easing of the industry imbalances and price distortions was already evident.

Indeed, the fiscal measures taken in 1966 and the monetary restraints of the Federal Reserve Board became increasingly effective in the later months of the year. The economy cooled down to a more sustainable