

Ahead: another year of growth

As 1977 begins, the U.S. economy seems poised for a renewal of vigorous growth. The pause of the summer and fall may have prolonged the expansion by encouraging caution in decision making by businesses and consumers. Investments in inventories and capital goods have remained moderate. Consumers have increased spending sharply, but at a sustainable pace.

In many respects the economy is stronger at the start of 1977 than it was a year ago. Price inflation slowed significantly last year, instead of accelerating as some had feared. Interest rates declined instead of increasing, as had been widely expected. Liquidity ratios of consumers, business firms, and financial institutions improved. Ample credit is available, currently, in all major sectors. Financial strains have eased for insurance companies, some troubled large cities, and even for real estate investors.

Last year's economic performance was marred by a series of major strikes. Labor negotiations scheduled for 1977 are not expected to lead to important work stoppages.

On the world scene the U.S. experience in recession and recovery compares favorably with that of most other industrialized nations. Although a large trade deficit was recorded for 1976, the U.S. dollar strengthened relative to the currencies of various nations with more serious problems of containing inflation.

A glance at the favorable side of the

economic picture should not obscure the pressing problems that remained unresolved. Substantial advances in output and employment have not reduced the rate of unemployment. Price inflation continues at an uncomfortably rapid pace. Major cities continue to show signs of decay in contrast to the vigor of outlying suburban areas. Financial stringencies have forced reductions of outlays for urgent public needs. The nation is becoming increasingly dependent on uncertain supplies of oil from abroad. A growing share of investments by business firms must be devoted to nonproductive outlays required to retard environmental deterioration. The federal budget continues to show deficits of a magnitude undreamed of a decade ago.

Few observers believe that another business recession is imminent. Nevertheless, there is widespread concern that economic growth in 1977 will be insufficient to reduce substantially the number of idle workers, a potentially explosive situation. As a result, there are strong pressures to stimulate the economy by more rapid expansion in money and credit, increases in federal outlays, a reduction in federal taxes—or by a combination of such methods. The pressing task for public policy early in 1977 will be the choice of measures to promote growth without significantly accelerating inflation and encouraging the excesses that ended, prematurely, the expansion of the early 1970s.

A subscription for a single copy of **Economic Perspectives** is available free of charge. For information concerning bulk mailings, address inquiries to Public Information Center, Federal Reserve Bank of Chicago, P.O. Box 834, Chicago, Il. 60690.

Articles may be reprinted provided source is credited. Please provide the Bank's Public Information Center with a copy of any material in which an article is reprinted.