Future uncertain

In late 1976 and in late 1977, various professional forecasters concluded an end to the business expansion was at hand. But all major sectors continued to make major gains. Dips in indicators of activity that were pointed to as heralding a general decline proved to be temporary or even illusory as statistical series were later revised upward.

Again in late 1978, predictions of a recession were common. Increases in employment, retail sales, and output seemed to be slowing down. But as more data has accumulated, the picture looks brighter. Growth in real GNP, in fact, appears to have *accelerated* in the fourth quarter. Personal income, farm income, and corporate profits were all sharply higher than a year before.

A substantial majority of the forecasters this January were still calling for a recession, saying it would begin sometime this year. Others, however, thought a decline would not occur, and a surprising number admitted that they were baffled. One of the most threatening new developments has been the long drawn-out turmoil in Iran, which has shut off that country's important contribution to world oil supplies.

So far, the economy has withstood extremely high interest rates and rapid price inflation—to an extent once thought impossible. Credit conditions tightened significantly throughout 1978, but unlike other such periods, credit remained available to those willing to pay the price. Mortgage credit grew more than in 1977. Banks continued to seek out new business. And capital markets accommodated a large volume of new issues.

The rapid rise in prices is viewed with alarm, even anger. But most incomes have been rising almost as fast, and some much faster. Consumers protest but buy anyway. So do businesses and farmers. Rising purchasing power from income and debt is one of the main factors propelling inflation.

The Administration and the Federal Reserve System are committed to slowing inflation. The Administration's wage-price guidelines were unveiled October 24. And on November 1, the Administration and the Federal Reserve jointly announced moves to support the dollar in international money markets and further restrict growth of domestic credit. Then on January 22, the President presented a "lean and austere" budget that forecasts a reduced deficit, even at the cost of restricted spending on programs interested groups consider highly desirable. By and large, all these measures have been widely supported.

Inflation of 1 to 2 percent was considered intolerable 20 years ago. By 1974, an underlying inflation rate of 5 percent was generally viewed as "imbedded." More recently, the concensus has raised the expected rate to 6 percent, then 7 percent, and now 8 percent.

True economic stability is impossible under such conditions. The nation is girding to reverse this trend. The road to faster price increases was easy. The return to slower rates of inflation will be long and hard.