share of disappointments in the past 5 years. They saw markets contract in 1957 just as they were adding new plant capacity and new labor to meet expected growth in demand. Much of the expanded capacity had to remain on the sidelines when the 1958–60 expansion fell short of full use of the Nation's great productive strength. To be caught long on capital and labor and short on markets tends to breed caution the next time around.

We do not have the stimulus of large backlogs of demand that marked the early postwar years. We do not have—and do not want—the stimulus to buying that inflationary expectations can provide. Against this background, it is difficult for private demand to carry the economy to full employment under existing tax rates.

During a period of recovery, an appreciable share of the growth in business and personal incomes is drained off into Federal taxes. I might say that this was a concern which we, as you may recall, expressed in our initial testimony before this committee in March of 1961. The fact is that the automatic stabilizers do cushion a downward movement, but at the same time exert a very considerable drag on a recovery. This tends to hamper the growth in both consumer and producer demand upon which continued expansion depends. During the five quarters of the current expansion, Federal taxes (net of transfers) have taken $12 billion of the $51 billion increase in total incomes, but Federal purchases have taken only $7 billion of the $51 billion increase in total output. The difference between the $12 billion of added taxes (net of transfers) and the $7 billion of added purchases is a measure of the drag on the recovery exercised by the Federal budget. If tax receipts had grown less rapidly, or expenditures more rapidly, total demand would have grown faster, and the expansion of output and income would have been greater. The automatic stabilizing effects to the Federal budget, which help to cushion a recession, also tend to retard a recovery.

If the economy were at full employment today, we estimate that total income and total output would be about $30 billion higher than at present. But Federal tax receipts would be about $9 billion above present levels, and private saving would be $5 or $6 billion higher than today. Thus, taxes and savings would be drawing $14 or $15 billion from the economy, which would have to be offset by additional investment and Government expenditures for full employment to be maintained. This means that, at present levels of Government expenditure, our present tax system bars the way to full employment unless we are able to raise private investment about $14 or $15 billion above present levels. I will come back to this point later.

PROSPECTS FOR THE MONTHS AHEAD

The most recent evidence on economic activity, though mixed, offers cause for concern. After a slow start in January–February, and then a brisk pickup in March and April, the 1962 economic expansion slackened in May and June. Those measures of overall activity which primarily reflect the results of the execution of past decisions to hire, buy, and produce—for example, the overall measures of income, employment, production, and construction—kept setting new records almost every month.