monetary policy has not impeded economic expansion for roughly 2½ years. The reserve position of banks has been easy—and this continues to be true in spite of the slightly recent tightening. Commercial banks are eager to expand their loans, in contrast to the loaned-up banking sentiment in 1957 and 1959. Bank credit has increased 8½ percent during the last year. Reflecting this, interest rates, contrary to the expectation of many experienced market observers earlier this year, have remained relatively low. Bond yields are only slightly above those of the low point of the recession early last year. Whatever quarrels we may have with the Federal Reserve about the details, the evidence does not seem to me to support the view that monetary policy has had very much to do with the current sluggishness of the economy. Nor does the recent slightly less easy credit policy yet constitute much threat to further expansion.

The principal drag has come from the tax side of Government fiscal operations. For years we have pointed with gratification to the stabilizing effect of our tax structure as a major defense against a recession. (Top of p. 10.)

Chairman PATMAN. I assume you will put your whole statement in the record?

Mr. MCCRACKEN. I would like to.

Chairman PATMAN. That will be done.

Senator PROXMIRE. I hesitate to interrupt, but I would appreciate it if Dr. McCracken would define "money supply" for us.

Mr. MCCRACKEN. Yes, sir, that is a good point, Senator. My definition of the money supply here would include time deposits. I suspect that is the point of your question.

I continue at the top of page 10. That total cash receipts of government (Federal, State and local) have absorbed a large and growing proportion of the national income is well enough known, though the quantitative magnitudes are not always fully appreciated. The ratio of Government cash receipts (on a national income basis) to national income rose from 26.6 percent in 1948 to 33.9 percent in 1960, and it is probably about 34½ percent right now. Now let us look more closely at the last year and one-half to see how this works out cyclically.

Chairman PATMAN. I would like to have one clarification here. You say "ratio of Government cash receipts." You mean all governments, Federal, State and local political subdivisions?

Mr. MCCRACKEN. That is correct. And on a national income basis.

Let us now look more closely at the last year and one-half to see how this works out cyclically. From the low first quarter of 1961 to the second quarter of 1962 private incomes before taxes (personal income plus corporate profits) increased $45 billion. Government receipts, however, absorbed almost 44 percent.

Now the sluggishness of the present recovery and the one in 1958 to 1960 begins to look a little less mysterious. The tax structure, by absorbing 40 to 45 percent of the rise in private incomes, left a gain in incomes after taxes so moderate that, with no special elements of strength present, we could not get an expansion in private demand vigorous enough to carry the economy back to reasonably full employment.

Now if the neutral position of the budget, where revenues and outlays are equal, is at full employment, we should theoretically find it