

possible to avoid persistent unemployment, though a tax structure absorbing such large and growing proportions of income increases would still have adverse implications for economic growth. If, however, this neutral budgetary position is at a level of business activity considerably below what would constitute reasonably full employment, we have also a short-run problem.

The fiscal drag would make full employment difficult to attain, which would cause a short fall in revenue, which would make the budget look bad, which might make us disinclined to take needed tax action, and so forth. This, I think, is not an unfair characterization of the present situation.

In the January report the Council of Economic Advisers estimated that at reasonably full employment, the present tax structure would produce a Federal surplus of perhaps \$8 billion this year (on a national income basis), with this full employment surplus approaching something like \$10 billion by the first half of calendar 1963. In short, the budget now moves from a neutral to a restrictive position substantially before the economy reaches reasonably full employment, and with Government receipts siphoning off 40 percent of the addition to income, it has been very difficult to get the needed thrust of increased private demand.

If this diagnosis is correct, what does it suggest for fiscal policy? It means three things. First, the tax structure should be lowered so that the budget does not begin to exert a brake on the economy quite so far below reasonably full employment.

Second, the tax structure now absorbs too large a proportion of increases in the national income.

Third, we must slow down the tendency for Federal Government receipts to absorb a growing proportion of the national income.

Most of my time has been consumed in an endeavor to establish the case that the fiscal operations of Government are an important source of our present economic problem, and vigorous fiscal action must play a major role in this problem. This leaves little time to spell out the specifics. This is not, I think, particularly fatal, because it seems to me there is a rather surprising consensus on what the tax actions ought to be if they can be undertaken.

First of all, budgetary procedures should be modified so that we give more explicit attention to this question: How rapidly should Federal expenditures grow in the years ahead? The excellent work on expenditures at both ends of Pennsylvania Avenue does an effective, and I think unappreciated, job of sifting out waste and unessentiality in the technical sense. It is less well designed to tell us whether these individually well-considered programs add up to more than ought to be spent in the aggregate.

The ratio of Federal budget cash outlays to GNP in fiscal year 1962 was 2.1 percentage points above that of fiscal 1960. Thus, if the rate of increase of Federal cash outlays had been limited to the rate of increase of GNP, Federal outlays last year would have been \$12 billion less. This growth has reduced the scope of otherwise desirable incentive-promoting tax reductions.

It is not unreasonable to expect from the administration an explicit declaration of its longer range policy with respect to total outlays. And the Congress should reexamine its own procedures to see if more