increments to national income would still have important 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, etc.

This is not an unfair characterization of the present situation. In their January report the Council of Economic Advisers estimated that at reasonably full employment the present tax structure would produce a surplus (on a national income accounts basis) of perhaps $8 billion this year, with this full employment surplus approaching $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 over 40 percent of additions to income, it has been very difficult to get the needed thrust of increased private demand.

III

If this diagnosis is correct, what does it suggest for fiscal policy? It means, I think, 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 the Federal Government's receipts to absorb a growing proportion of the national income secularly.

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 that vigorous fiscal action must play a major role in any program to deal with the problem. This leaves little time to spell out specifics. Even so, it may be useful to indicate briefly the nature of a fiscal program that might contribute to a stronger economy.

First, 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, underappreciated 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 1962 was 2.1 percentage points above that of fiscal 1956. Thus, if the rate of increase of Federal outlays had been limited to the rate of increase of GNP, Federal cash outlays last year would have been $12 billion less. This inevitably has reduced the scope for 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 explicit attention can be given to the total on the expenditure side of each year's budget.

TABLE VI.—*Ratio of Federal cash budget outlays to gross national product*

[In percent]

	Fiscal year 1956	Fiscal year 1960	Fiscal year 1962
National defense	10.0	9.3	9.5
Others	7.8	9.8	10.4
Total	17.8	19.1	19.9

Second, the economic situation would benefit from tax actions now that would reduce the level of the structure and move it in the direction of a better system. Fortunately, there is considerable agreement about what would constitute such a package—a reduction of three to five points in the corporate income tax; a cutoff of the personal income tax at around a 65-percent top rate, with reductions of perhaps two percentage points back down through the normal tax; and a rationalization of our motley array of excise taxes (which could be done with