

expected to materialize only if, given the projected Government spending and taxing programs, demand in the private economy would be large enough to produce a total GNP of \$570 billion.

Developments in 1962 clearly indicate that Government fiscal policy is too restrictive to permit the economy to achieve the projected levels of output. The degree of restriction can perhaps be fully appreciated if the figures used in the budget are translated to a full employment basis (which is ordinarily defined as employment of 96 percent of the labor force.) At full employment and projected levels of Government spending, the administrative budget surplus would probably amount to about \$4 billion in fiscal year 1963. When translated into the more economically meaningful national income budget, this is equivalent to a surplus of about \$8 billion. Full employment will not be reached this year because private demand is not strong enough to permit the Government to drain off that amount from the private economy.

In fact, as events have turned out, private demand is not even strong enough to permit the Government to plan on a budget which would be barely balanced at a 1962 GNP \$15 to \$20 billion short of full employment.

It is noteworthy that the original budget estimates for every one of the past 5 years projected some surplus, yet deficits were actually realized in 4 out of these 5 years. As the following table shows, the original estimates for the 5 years aggregate to a cumulative surplus of \$8.1 billion, but the period ended with a cumulative net deficit of \$24.2 billion. This sad record was due primarily to the reduced receipts from levels of business activity that turned out to be substantially lower than those estimated.

(The table referred to follows:)

*Comparison of original budget estimates with actual results, fiscal years
1958-62*

[Billions of dollars]

Fiscal year	Administrative budget surplus (+) or deficit (-)	
	Original estimates	Actual
1958.....	+1.8	-2.8
1959.....	+ .5	-12.4
1960.....	+ .1	+1.2
1961.....	+4.2	-3.9
1962.....	+1.5	-6.3
Total.....	+8.1	-24.2

The so-called "squeeze" on corporate profits is principally a reflection of this lackluster performance of the economy. Recent research by econometricians has indicated that the brunt of a short fall in the gross national product below full employment potential is felt by corporate profits. The short fall of profits below the level it would reach at full employment will amount to at least \$8 billion in 1962 alone. Even larger amounts were lost in several recent years. We cannot allow this to continue much longer. A prolonged period of disappointing profits inevitably reduces investment incentives and retards the Nation's economic growth.