

SHORT-TERM VERSUS LONG-TERM CONSIDERATIONS

Mr. MADDEN (resuming). The current "rolling readjustment" of the economy from its superheated condition of last year shows signs of being modest and capable of completion within the year, although the pickup in the second half may not be as strong and rapid as the Council of Economic Advisers predicted in its annual report last January.

Our short-term problem is to prevent the leveling of business activity that started in the second half of last year from developing into a downturn. A crucially important factor at this juncture is confidence—both among businessmen and consumers. If business retains its confidence about long-term prospects, the effects of recent trends on business fixed investment outlays could be moderate. Similarly, if consumers do not continue for much longer to save a larger percentage of personal income than last year, in part because of an anticipated tax increase this year, consumer durable sales may soon quicken.

But we should not permit the problems of the near term to obscure the more fundamental long-term issue of economic growth and how best to promote it.

PROMOTING ECONOMIC GROWTH

By definition, stable growth will take place if aggregate demand rises in step with productivity gains. But our unhappy experience with the unbalanced monetary-fiscal policy mix of last year demonstrated that this general condition for stable economic growth does not occur automatically. By being too easy, fiscal policy forced monetary policy to be unduly restrictive. The Federal spending component of fiscal policy has been rising steadily—quite apart from spending for defense.

From 1960 until fiscal 1967, the rise in nondefense spending outpaced defense spending increases. In some years, such as fiscal 1961, 1963, 1964, and 1966, nondefense spending rose considerably faster. Although in the current fiscal year defense spending is rising more rapidly than nondefense spending, even for fiscal 1968 the percentage increases are quite comparable. Federal nondefense spending has also been rising faster than the GNP. This type of spending has risen on a cash basis from 10.4 to 11.7 percent of current dollar GNP, fiscal 1960-66, and to 12.8 percent estimated for fiscal 1968.

This inexorable rise in Federal nondefense spending has not only contributed to inflation by concentrating on the service industries where productivity rises slowly, but it also has limited fiscal policy flexibility to changes in taxes.

Far from needing a tax increase for fiscal flexibility this year, as proposed, we need expenditure control of nondefense programs for long-range balance among national priorities. More of the economic "growth dividend" should be made available to the private sector or to State and local governments.

A simple and effective way to do this is through Federal tax cuts whenever inflation is not a threat. When inflation threatens, monetary policy will be more effective and less harsh if Federal nondefense spending is controlled more than it has been since fiscal 1960.