

cuts on automobiles and telephone service, increased social security tax collections, speedup of individual and corporate tax collections, and normal growth in revenues as the economy expands.

The second half of calendar 1966 also is expected to show a net fiscal stimulus; the high-employment budget is expected to move toward a larger deficit of about \$1 billion. Planned increases in expenditures are expected to be larger than the growth in receipts. Increases in receipts will have to flow almost entirely from rising incomes, because no tax increases are scheduled in the budget plan for the second half of calendar 1966. Graduated withholding of personal income taxes may dampen purchasing power somewhat, but the impact is not expected to be large. The speedup in corporate tax collections is not designed to change payment schedules in the second half of calendar 1966.

In the first half of calendar 1967 the high-employment budget is expected to show a surplus as the rate of increase of expenditures tapers off and receipts continue to climb because of rising incomes. Estimates so far in the future are not reliable, however, because of many contingencies and uncertainties, particularly regarding the war in Vietnam.

Fiscal plans and economic setting—An evaluation. Budget policy in calendar 1966 as presented in the CEA report is predicated on the belief that actual gross investment will be approximately equal to planned high-employment private saving. High-employment government saving is expected to be slightly more than \$2 billion, consisting of a State and local government surplus partly offset by a slight deficit in the high-employment Federal budget.

Of critical importance in judging the economic impact of the Federal budget is whether a dollar of receipts restrains private demand by a like amount. An implication of the high-employment budget as a measure of fiscal impact is that a dollar of increased expenditure has the same economic effect as a dollar decline in tax receipts. The validity of this assumption is especially important when it is noted that the budget program for calendar 1966 plans a near balance in the high-employment budget but includes marked increases in both expenditures and receipts. If a dollar increase in tax receipts does not restrain private spending by the same amount, the high-employment budget understates its fiscal impact.

As noted above, the national income accounts measure Government purchases at the time of delivery. Thus, the high-employment budget may not be entirely accurate as a measure of fiscal impact for this reason. If the flow of Government orders is relatively smooth, the Government expenditure series may accurately measure the impact of the budget on the economy over time. However, at times of sharp changes in Government orders, the economic effects of the change are not recorded in the budget accounts until the goods have been delivered.¹⁰

Such a factor may be particularly relevant early in calendar 1966. Increases in Government spending are projected over the current fiscal year (fiscal 1966) and the next, but new obligational authority

¹⁰ For a discussion of this view of the Government spending process and its relevance for the 1967 Federal budget, see Murray L. Weidenbaum, "The Inflationary Impact of the Federal Budget," Washington University Working Paper 6529 (Feb. 10, 1966).