

THE FEDERAL BUDGET AND ECONOMIC STABILIZATION

The President's Council of Economic Advisers forecasts 1967 gross national product at \$787 billion in current prices, an increase of about 6.5 percent over 1966. This increase consists of an advance of nearly 4 percent in real output and an increase of slightly more than 2.5 percent in prices.¹

The Council's forecast, or plan, is constructed in large measure on a Federal budget program that produces in calendar 1967 about a \$4 billion deficit on a national income accounts basis.² A 14.3-percent increase in Federal spending and an 11.3-percent rise in revenues underlie this projected deficit. The expected increase in revenues will result from several factors, including continued advance in total income and a proposed 6-percent surcharge on personal and corporate income taxes effective July 1.

The Federal budget program and the Annual Report of the Council of Economic Advisers (CEA) together can be viewed as a national economic plan in the spirit of the Employment Act of 1946. The presentation of the CEA is based, in considerable measure, on the popular theory that Federal budget policy to a major degree can control total demand and thereby exert a primary influence on changes in real output and prices. Budget policy is presumably designed to achieve an optimum level of demand compatible with the goals of high employment, real growth, relative price stability, and equilibrium in the nation's balance of payments.

In contrast with the fiscal policy theory of economic stabilization there is an alternative school of thought which places primary emphasis on control of monetary variables as a vehicle for influencing total spending. It is the belief of this school that monetary factors play a dominant role in the determination of total demand.³

The theory implicit in the following presentation is that the combination of stabilization policies, rather than fiscal or monetary policy alone, in large part determines total demand. Consequently, this discussion of the Federal budget alludes frequently to the role of monetary policy in national economic developments. The purpose of this article is to summarize the proposed Federal budget program for calendar 1967 and to examine its implications as a part of total stabilization policy.

Although the Federal budget receives considerable attention at this particular time of year, it seems that in the interest of a dynamic and effective stabilization policy, or even of a neutral policy, the budget program should be reviewed continuously throughout the year. Evaluations are made privately on a continuous basis, but an official

¹ *Annual Report of the Council of Economic Advisers* (January 1967), pp. 62-63.

² The national income accounts budget summarizes the receipts and expenditures of the Federal Government sector as an integrated part of the recorded activities of all sectors of the economy. For expanded discussion of this and other fiscal measures, see the appendix, "Budget Concepts and Definitions," p. 597.

³ The 1967 report pays considerable homage to the role that monetary policy played in restraining total demand in 1966. The appearance of such an acknowledgment distinguishes the 1967 report from previous ones, in which monetary policy was seemingly considered supportive (for fiscal policy) rather than active in affecting total demand.