the inability to achieve a significant speed up in procurement to combat the recessionary conditions in 1958.[117]

The Bureau of the Budget concluded that the governmental actions that have the largest and promptest economic impact are transfer payments such as unemployment compensation that constitute outright additions to private purchasing power, rather than programs tied to construction or the production of goods.[118]

Tax Policy. Understanding the time sequences in the Federal spending process is also important in formulating tax policy. The administration leaders were in a difficult position in the fiscal year 1951. The inflationary pressures that had been rampant in the economy since the Korean outbreak were unaccompanied by any immediate Federal deficit. Under the principles of "sound finance" and balancing of receipts and expenditures, there was no need for added taxation during the year. However, the administration was partially successful in coupling the need for increased revenue with recently enacted appropriations and the high levels of procurement—rather than with the low contemporaneous level of expenditures. This resulted in sufficient additional revenues to yield a surplus in 1951, although not in the later years when the high projected expenditures materialized.

The following statement made by the then Secretary of the Treasury John Snyder to the House Ways and Means Committee clearly illustrates the importance for fiscal policy of taking account of the economic impact of the early stages of the Federal spending process.

> In considering the additional revenue required, we should not be misled by the fact that, temporarily, the budget deficit is moderate. Since an important part of defense preparation entails production operations extending over two, three, or even more years it is inevitable that obligations incurred now will be fully reflected in expenditures only at some time in the future. * * *
>
> Under present conditions, expenditures for defense exert an inflationary pressure on the economy substantially in advance of the actual disbursement of funds. Demands for materials, labor, and capital outlays occur very soon after the Government contracts are let, well in advance of the time when the Government pays for that production. This explains in part why scarcities and inflationary pressures have developed even though a large portion of the increased defense funds appropriated by the Congress after Korea have not yet been reflected in Government expenditures.[119]

A comparable policy might be adopted toward tax reduction when a decline in government purchasing occurs. In fact, such action took place after the hump in the Korean mobilization program had been passed. The sizable decline in obligations which occurred in the fiscal year 1954 was accompanied by reductions in individual income taxes, by the elimination of the excess profits tax on corporation income, and by other modifications in the tax structure which resulted in immediate losses in revenue. These tax reductions may not have been directly motivated by the concurrent declines in government orders. However, the administration policy at the time was to reduce government demands, both on output and income, so as to allow increased private demand and personal disposable income.

Direct controls. The inflationary (or deflationary) effects of changes in the early phases of the Federal spending process are of importance in the administration of price, wage, and materials controls. Anshen

[117] U.S. Bureau of the Budget, *Federal Fiscal Behavior During the Recession of 1957–58*, Washington, 1961, p. 18.
[118] *Ibid.*, p. 21.
[119] U.S. Secretary of the Treasury, *Annual Report on the State of the Finances for the Fiscal Year Ended June 30, 1951*, Washington, 1952, p. 406.