

Let me now set forth the basic overall reasoning that led us to the conviction that the President's program represents the best choice of fiscal measures that the present circumstances permit.

The Director of the Budget, Mr. Schultze, will cover the budgetary and expenditure aspects of the President's program in depth, and the Chairman of the Council of Economic Advisers, Mr. Ackley, will deal in some detail with the economic aspects of the program. I will also discuss some of the financial reasons for the program and explain how the tax measures would be implemented and how they would affect taxpayers.

I want to emphasize that we have arrived at these views on the basis of what the President termed "the hard and inescapable facts." What are these hard facts?

First, our special Vietnam costs are now being incurred at a rate in excess of \$22 billion per year. These costs are at levels that call for more financing from current tax revenues—by a temporary surcharge of as much as economic conditions permit.

Second, without this temporary surcharge, our budget deficit in the current fiscal year would increase to unacceptable levels. This statement is based on the original January budgetary levels of revenues and the expenditures for Vietnam and all the other defense and civilian programs, and on the developments outlined in the President's message which make it necessary and realistic to revise the expenditure estimates upward and the revenue estimates downward.

Third, despite the Federal Reserve System's continued application of a policy of monetary ease, resulting in a substantial expansion of the Nation's money supply and credit, we are witnessing a return of long-term interest rates to levels near their peaks of late last summer.

Recently, short-term rates which had moved steadily downward since last fall, have reversed their direction and have begun to move back up. This temporary surcharge is therefore necessary to avoid the risk of excessively high interest rates and limited credit in particular sectors, such as housing.

To the extent that the Federal Government must finance its growing deficit by borrowings on the credit markets rather than pay for its additional expenditures by additional revenue raised through the surcharge, Government borrowing will increase the pressure on these markets and contribute to high interest rates and the risk of inequitable and damaging imbalances in credit availability—even assuming a continuation of the recent high rates of growth of money supply and bank reserves.

The imposition of the tax surcharge is prompted by these hard facts of the current cost levels of the hostilities in Vietnam, the current level of the budgetary deficit that is being incurred, and the current levels of interest rates and credit conditions in both the long- and short-term areas. This conclusion does not involve guesswork.

Given these facts, the only valid reason for failing to impose this temporary surcharge would be a solid conviction that it would be inconsistent with preserving sound, balanced economic growth.

Although a temporary surcharge was included in the fiscal 1968 budget program to be effective July 1, it is wise for both the Presi-