

A special supplemental appropriation for defense in the amount of \$12.9 billion was, therefore, requested in last January's budget message. A surcharge of 6 percent on both corporate and individual income taxes to last for 2 years, or for so long as the unusual expenditures associated with our efforts in Vietnam require higher revenues, was recommended to become effective at the beginning of fiscal year 1968.

Immediate imposition last January of this surcharge was not requested because of the temporary period of slack in the economy resulting from fiscal and monetary restraints previously imposed and the inventory readjustment. Now, however, inventories have been substantially readjusted, and the course of the economy is heading upward.

I thus come to the hard, inescapable fact that the special costs of Vietnam are now being incurred at a rate—in excess of \$22 billion—that calls for a temporary increase in the tax liabilities of individuals and corporations to meet a portion of those costs.

2. To hold down the deficit

We need also this tax increase to hold down the deficit.

We could, of course, turn away from the course of responsible actions and attempt to meet our financial obligations without resort to a tax increase. Consider for a moment what this would mean in terms of the size of the deficit that would result.

The budget for fiscal 1968 submitted last January estimated expenditures at \$135 billion—\$75.5 billion for the Defense Department and Atomic Energy Commission, and \$59.5 billion for civilian programs. As the Director of the Budget will detail, these estimates may be exceeded by as much as \$8.5 billion—\$2.5 billion for civilian programs, \$2 billion for a possible denial by Congress of the authority to sell participation certificates in the amount included in the January budget, and \$4 billion for defense.

In addition, with no tax increase and with expenditure at the higher end of these contingencies, outlays for interest on the public debt would also rise, by up to perhaps as much as \$700 million.

The President has pledged to take every proper action to avoid an increase of this magnitude. But as he pointed out in his message to Congress, action by the executive branch alone is not sufficient. The outcome will also depend on congressional action with respect to appropriations and mandatory spending requirements.

Turning to the receipts side, since last January revenue estimates have been revised downward by approximately \$7 billion:

\$800 million as the result of congressional action in restoring the investment credit and accelerated depreciation earlier than the budget had assumed.

\$1.3 billion because of lower corporate profits.

\$300 million because of lower personal income than projected 6 months ago.

\$3 billion because of a decrease in estimated yield from existing income tax rates and \$200 million because of a decrease in the estimated yield of gift and estate taxes and customs.

\$600 million because of a reduced estimate of miscellaneous receipts such as stockpile sales (\$450 million) and offshore oil revenues (\$80 million).

\$800 million because of a later effective date for the surcharge on personal income taxes than recommended last January.