

vestment. Alternatively, if the Federal Reserve System were to expand the credit base so as to accommodate funding so large a deficit at low interest rates, the nation would be subjected to powerful inflationary pressures.

The most desirable method of dealing with this problem, of course, would be to eliminate or greatly reduce the threatened 1968 deficit by a cut in expenditures. To control inflation, expenditure reduction is more effective than tax increases which may be passed on in part in higher prices. Without extensive evaluation of programs, Congress and the Administration may, however, be limited at this time in their ability to accomplish an adequate reduction in non-defense spending for fiscal 1968 since much of the spending is a result of substantive legislation passed in earlier years. If this turns out to be the case, an increase in taxation might be considered as "the least of the evils."

There is an inherent danger, however, in using a tax increase as a corrective for an excessive deficit. A tax increase might so reduce the pressures for spending reduction, that its end-effect could be to increase expenditures over what they otherwise would have been, rather than to reduce the deficit below what it otherwise would have been. Whatever is done in the present fiscal crisis must guard against such a tendency.

At the present juncture, anything that is done, and anything that is not done, involves its own set of risks. But decisions have to be made, and the NAM Taxation Committee recommends the following program for government action during the present fiscal crisis:

(1) Congress and the Administration should immediately undertake a program for reducing federal expenditures and controlling their future growth. This program should have the following characteristics:

(a) It should be carefully planned and organized. The same kind of detailed planning should be applied to achieve economy as is now applied to developing proposals that involve spending more money.

(b) Specific responsibility for the program should be assigned to definite persons in the Administration and to definite members of Congress. Without such an assignment, efforts to achieve economy might amount to no more than pious declarations.

(c) The program should have the short-run objective of reducing the deficit in fiscal 1968, so as to avoid or minimize the need for a tax increase.

(d) The program should also have the long-run objective of regaining control over the growth of spending in the future. This would require consideration of changes in substantive legislation, as well as appropriations. This long-run effort would be necessary to ensure that any tax increase enacted in 1967 or 1968 would be only temporary, and would not be used to support a permanently higher level of spending. The concept incorporated in H.R. 10520 introduced by Chairman Mills on June 5, 1967 merits support as part of a long-range program to control federal spending. It would establish a Government Program Evaluation Commission comprised of private citizens whose duties it would be to evaluate existing federal programs and make recommendations to the President and to the Congress as to their effectiveness, whether they should be continued, and their relative priority. Without a high-level coordinated effort of this nature, proliferation of federal programs can be expected to continue unabated.

(2) If, after such an economy effort it appears that the nation is nevertheless threatened with the probability of a deficit in fiscal 1968 so large as to be potentially damaging to the economy, Congress may be impelled to enact a tax increase. If a tax increase is enacted by Congress, it should be designed in accordance with the following principles:

(a) Any tax increase should be clearly labeled "temporary" and should provide for its own termination at the end of one year. A tax increase for any longer period would reduce the pressures for government economy, and is therefore undesirable.

(b) Any tax increase should be of such character as to do minimum damage to business profitability and business confidence, since these factors are so vital in determining the general level of employment and economic activity. For example, any further speedup of corporate tax collections, especially one which is concentrated on small business, should be avoided at this time. Past speedup of such collections has impaired the cash resources of business for meeting its needs for current operations and expansion.

(c) Decision as to the dollar amount of any tax increase must of necessity be a compromise. It should be sufficient to reduce the deficit substan-