Except in extreme cases of inflation and recession, we believe these automatic swings are the budget's major contribution to economic stability. The deficit now facing us is so large that it is far outside the range of any stabilizing swings which would occur automatically.

Deliberate correction of the imbalance in the Federal budget is the chief tool that is now available for restoring the condition of growth at stable prices.

We have argued in earlier CED policy statements for agreement in advance between the President and both houses of Congress on a method for quickly enacting temporary changes in tax rates as a way of stopping a recession and promoting recovery *or* holding back excess demand and averting inflation. This would require devising some means for putting the tax change quickly into effect and for assuring its termination.

Time will be wasted in searching for an agreement between the Executive and Legislative branches of government on continuing authority for the Executive to practice a discretionary fiscal policy. For this reason, in a statement issued last December, "A Stabilizing Federal Budget for 1967," CED expressed its preference for a temporary across-the-board tax increase for the calendar year 1967 to the extent necessary to produce the desired balance in the Federal budget. We repeat that recommendation for fiscal 1968 as well.

In our December 1966 statement we acknowledged that the outlook for the economy in 1967 was uncertain. At the moment there is not much difference of opinion among the experts as to the economic outlook for the remainder of 1967 and calendar year 1968. Most economic indicators point to rising economic activity. Moreover, unlike the previous fiscal year, the Federal budget for fiscal 1968 is projected to have a $15 billion deficit on National Income and Product Account. We are especially anxious that the government does not pursue policies which heighten the chance that total demand—both public and private—will exceed our capacity to produce at stable prices and thereby add to inflation.

We regard inflation as highly undesirable because it erodes the value of long-run, money-fixed obligations, which are so important in our economy. It poses serious hardships for the weaker groups in our society, the older retired people, for example. But it also has a substantial effect on all those who are presently accumulating fixed claims for their ultimate retirement income. Since pension plans comprise a part of compensation for a large portion of the population, the impact of inflation on our economy is widespread.

In addition to its socially destabilizing effects, inflation introduces a disruptive element into our economic life. Anticipation of price increases tends to accelerate both inventory accumulation and expenditures for plant and equipment. Business firms, faced with the prospect of price increases, tend to pursue policies which only accentuate the demand pressures which cause inflation. These actions result in a rate of expenditures which cannot be sustained over long periods. Thus one of the most pernicious effects of inflation is that it tends to accentuate instability in the form of price increases, bigger increases in demand at times when capacity is over-loaded, and sharper declines in demand and output and employment when the speculative character of the demands is realized and the inventory and plant and equipment accumulation cannot be sustained. Rapid inflation brings the worst of both possibilities—accelerating price increases followed by substantial declines in output and employment.

With the economy operating near the peak of its capacity in human resources and efficient plants, it is especially important that the Federal Government examine its spending plans with extreme care. As we said in our statement in December, "This Committee believes that holding down the rate of government expenditure growth would be preferable to raising taxes as a way of achieving the necessary surplus; temporary tax increases tend to remain in effect and the revenues they generate tend to be absorbed in permanent spending programs."

To realize those reductions in spending which are possible, the President must exercise restraint in his recommendations and the Congress must exercise similar restraint in its authorizations. In addition, the President should be free to use his discretion over the timing and amount of expenditures which are controllable by him under law.

A review of economic developments since the acceleration of military activity in Vietnam may be useful to understand our arguments in favor of an increase in taxes and a reduction in expenditures.

The rise in the military demand upon the national economy associated with the Vietnam War began in the middle of 1965. By the first quarter of 1967 the value of resources being devoted to military purposes had increased about 40 per cent above the rate of early 1965; part of this increase resulted from rising prices.