

Second: to carry forward, at a controlled and reasoned pace, our commitments at home to promote the health and education of our people, to continue the war on poverty, to improve conditions in our urban areas, and to combat the menace of pollution in our environment. A moderate increase in expenditures is provided for these programs, while less urgent activities have been held down to the minimum feasible level.

As a matter of fact, Mr. Chairman, last night I came across an editorial in *Life*, which expressed the nature of the domestic side of the budget better than I could, I think, pointing out that it is a budget that will please neither the pennypinchers nor the spendthrifts but will be defensible against both.

Third: to increase substantially the level of social security benefits as a means of helping to provide a decent income for millions of older Americans.

Fourth: by proposing additional taxes, to provide a fiscal policy which permits a continuation of the recent trend to easier monetary conditions, and the pursuit of balanced economic growth.

The Budget proposes several new revenue measures:

(a) A 6-percent surcharge on tax liabilities of individuals and corporations, exempting individuals with taxable incomes wholly within the first two brackets; the surcharge would be effective July 1, 1967, and automatically expire 2 years later, unless conditions permit an earlier termination.

(b) An increase in the taxable wage base for social security from \$6,600 to \$7,800 on January 1, 1968, as a first step in financing the enlarged social security benefits.

On a national income accounts (NIA) basis, these proposals are estimated to yield \$0.5 billion in the current fiscal year and \$5.3 billion in 1968.

In addition, two changes in the timing of tax collections are proposed which have no effect on the national income accounts budget but do increase revenues in the administrative and cash budgets:

First, an increase from 70 to 80 percent in the relationship that a corporation's estimated tax for any given calendar year must bear to its final tax liability.

Second, elimination, over a 5-year period, of the present exemption on the first \$100,000 of corporate tax liability—elimination, if you will, of that exemption—from the requirement of payment on a current estimated basis.

The combined effect of the expenditure and revenue proposals is to reduce the Federal deficit on a national income accounts basis from \$3.8 billion in fiscal year 1967 to \$2.1 billion in 1968 as a whole. For the last half of the fiscal year, the budget on this basis will be essentially in balance or slight surplus.

We believe this to be a sensible and suitable approach, given the best assessment we can now make of economic trends over the period involved. A substantially larger deficit, on the one hand, might well cause a renewal of inflationary pressures as well as a halt to the easing of monetary conditions. Reaching a substantially smaller deficit or a surplus for the fiscal year 1968 as a whole, on the other hand, might well adversely affect economic activity and, by depressing incomes, be self-defeating insofar as balancing the budget is concerned.