

A major decrease in funds for government loan programs, except for housing.

Some reduction in the number of government civilian employees (the cost of which has grown from \$12½ billion to \$18½ billion since 1960).

An all-out effort to reduce the total of expenditures by sales of government loans, agricultural surpluses and stockpile materials (which amounts are used largely to offset expenditures).

It is a fair assumption that many of these moves will be made in the 1968 budget. It is unlikely that any notable new programs will be proposed. It is hard to envision any reduction in defense procurement or in the size of the military services, unless an assumption is again made of an early end to the Vietnam war. Even so, a supplemental appropriation of perhaps \$10 billion is expected to be asked of the Congress in January.

NEED TO CUT SPENDING FOR GREAT SOCIETY

The final area for possible reduction is the Great Society programs of recent years. The budget may retreat on these in some degree. If it does not cut them back significantly the likelihood of revenues and expenditures being in balance is quite remote.

This brings us to the delicate matter of a tax increase. Leaving aside all political considerations, there is still to be resolved whether or not a significant increase early in calendar 1967 will help or hurt the economy, or would help or hurt revenues. Some economists are already expressing fears that higher taxes, coming at a time of economic unsteadiness, could stimulate a recession. Whatever the President recommends, the Congress will probably want to take a long look at developing conditions before it passes a tax bill next Spring.

All in all, the program decisions this year are difficult and crucial. First priority, as always, goes to the needs of national defense. Many other items, including interest on the debt and veterans benefits, are uncontrollable. Every other item in the budget this year will have to pass a more stern definition of necessity than in any recent year.

For the best long-term interests of the country, I believe the President should:

(1) Enlarge his present campaign to reduce current spending in 1967, make still deeper cuts, and merge overlapping and duplicating Great Society programs to reduce waste and inefficiency. All this could help to reduce the deficit this year to manageable size.

(2) Propose a budget for 1968 that shows a small surplus, achieved entirely by curtailing present programs, and adopting no new programs. Hopefully, a surplus can be achieved without a tax increase. A balanced budget, with a small surplus, is essential to reduce inflationary forces and to provide the flexibility to meet emergency developments in the economy. But this can be accomplished without a tax increase only if the spending cuts are deep. I doubt that the President will heed this advice and I expect that he will propose a "temporary" tax increase of some size in January.

There are a few more things I would like to say in conclusion. The first relates to the current attitude of the American people. The second relates to the integrity of the budget. Both are important in this context, at this time.

I believe the election was evidence that the American people are truly concerned over the incessant increases in Federal spending and the endless new programs, many of them demonstrably wasteful or overlapping. Whether or not you call it the "Puritan ethic," the people are still basically uneasy about the way this nation continues to pile up deficits and debt and inflation. They simply do not trust what I referred to at a Tax Foundation meeting several years ago as "government by credit card."

Furthermore, I feel confident that the American public does not want a tax increase at this time. The public opinion polls show clearly that the people are unwilling, in a time of military action, to pay for nonessential social experiments, however noble, at the certain cost of higher taxes on the one hand or inflation on the other.

And, just as fundamental, is the need for reform in the budget document. Federal budgets in recent years seem to have been designed primarily as political documents. This has resulted in many accounting inconsistencies and even misleading totals. Compounding all the weaknesses of earlier budgets, the fiscal 1967 budget employed a wide variety of new devices—some call them gimmicks—or enlargements of old ones, to make it seem less spendthrift than it is. Some of these devices are of doubtful validity.