

policy is that the Federal budget should be in deficit during much of the year, even at full employment, and even though such a deficit would have been highly inappropriate as recently as a year or even less ago.

Finally, some comments on what we can afford.

WHAT CAN WE AFFORD?

In allocating our abundant resources among priority uses, we should, as I noted earlier, consider our vital domestic programs on their merits and not as ready candidates for sacrifice on the altar of economic stability. Abandoning or weakening such programs at the first need for fiscal restraint would be both inefficient and inequitable. Our 1967 fiscal plan must make room for them.

In doing so, one should not rule out the possibility that the economy will soften enough later in the year to finance the increases in Vietnam and Great Society costs without added taxes; i.e., by drawing on resources that would otherwise have stood idle. But I consider this highly unlikely.

Much more likely is an economy in which sufficient resources for pursuit of war in Vietnam can be made available only by cutting into private spending by higher taxes or into public spending through budget cuts.

In making this choice, each of us could compile a list of wasteful or postponable Government expenditures that should get the axe or at least the pruning knife. Mine would include many a maritime and irrigation subsidy, rivers and harbor projects, impacted school aids, and so on. Senator Proxmire, from earlier in these hearings I gather, would prune the space, European defense, and public works programs. Others would have their own pet lists. But my judgment is that few, if any, of these cutbacks are likely to show up on the voting lists of 51 Senators and 218 Congressmen. And we are surely not going to stint on Vietnam.

So the choice, almost inexorably, boils down to restraint in private spending versus restraint in public spending on programs that benefit the poor and disadvantaged, that attack the urgent, but unfortunately accustomed, problems of ugliness and urban blight. Before the Congress concludes that the war in Vietnam requires cuts in the War on Poverty, on slums, on crime, on air, water, and land pollution, it should consider these facts on public spending and private affluence:

Defense spending in fiscal 1968 will take only 9 percent of a GNP of some \$800 billion, virtually the same ratio as in 1960, when GNP was about \$500 billion. This is below the near 10 percent figure that prevailed during the mid-1950's and far below the 13.4 percent of 1953 during the Korean war.

Total Federal purchases are only 11 percent of GNP this fiscal year and are expected to be 11.3 percent next year, which is well below the 1955-59 average of 11.4 percent, and far below the 1953 peak of 15.6 percent.

Total Federal expenditures in the NIA budget, including trust fund activities, grants, transfer and interest payments, are 20 percent of GNP this year and will be 20.8 percent in fiscal 1968. Despite the enormous advances in the largely self-financed trust programs, this is only modestly above the 19 percent of the 1958 to 1960 period.