

the investment tax credit was suspended. Income tax rates remained nominally constant, but they rose in real terms as a consequence of applying a progressive tax schedule to inflated incomes. This January, social security taxes were lifted another notch.

The President has now proposed additional increases in tax rates. The most important of these are, first, a surcharge of 6 percent on the income tax liability of individuals and corporations, starting July 1, second, an increase in the social security tax on January 1, 1968, and again on January 1, 1969.

These tax recommendations are obviously related to the administration's spending plans. In particular, the higher social security tax is directly linked to the higher social security benefits that the President has recommended, with the first hike in the tax coming 7 months after the benefits are to be lifted.

In judging the President's new tax program, it is necessary to consider not only the wisdom of the proposed expenditure plans, but also the magnitude of the tax burden that is already borne by the American people.

Our gross national product in 1966 was about \$58 billion larger than in 1965. Federal revenues, according to the national income accounts, were \$17½ billion higher. Thus, the Federal Government absorbed 30 cents out of every additional dollar of gross national product.

The States and localities took another 10 cents. Thus, taxes siphoned off 40 percent of the increment of the gross national product last year. During the past dozen years or so, this figure was exceeded only in 1956 and in 1960. It may not be entirely an accident that these years were followed by recession.

In 1963, when the administration urged a massive tax reduction, it rightly put great emphasis on the fiscal drag of our tax system. The argument was that the tax system draws off so large a portion of a rising national income that it tends to choke off the process of expansion. Yet, in 1963, Federal revenues absorbed only 27 cents of every additional dollar of gross national product, in contrast to 30 cents in 1966.

If our economy in the years ahead is to grow and prosper, as it both can and should, we will need the stimulation that comes from an improving tax climate. Unhappily, under present circumstances, tax reduction is impracticable. But we should at least try to avoid tax increases, and we can do so by curbing the growth of Federal expenditures.

If increases in social security benefits are kept within modest limits, there will be no need for any early increase in employment taxes. And if the growth of other Federal civilian programs is moderated, there will be no need to raise income taxes this year.

I realize that the rapid growth of civilian expenditures is often defended on the ground that we have excessive poverty in our land of plenty. But I know of only one sure weapon for waging successful war on poverty; namely, full employment together with rapid improvement in the productivity of labor. This should be our prime economic objective. I am inclined to doubt if the increase in Federal aid to the poor from \$13 billion in fiscal 1963 to \$22 billion this fiscal year has really done very much for poor people.