

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

He goes on to say :

In 1963 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 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.

I take it when you say expenditure programs should be considered on their intrinsic merits, that you are talking about within a narrow range. My question would be: Do you share the concern about fiscal drag that could result, if programs were in fact considered only on their individual merit and we kept adding on more, and as a result did increase taxes to compensate for the additional Federal spending?

Mr. TOBIN. When I say the programs should be considered on their merits I don't mean that—

Representative RUMSFELD. You say intrinsic merit.

Mr. TOBIN. Intrinsic merits. I don't mean that the Congress and the Federal Government should adopt every program which is meritorious.

Representative RUMSFELD. That is what it sounded like to me.

Mr. TOBIN. Then let me elaborate. What I mean is that the Congress and the Executive should consider the importance of any Federal program relative to other possible uses of the same economic resources. Those possible uses are either other Government uses by Federal or State and local or private uses. So what I mean is that you should consider programs of the Federal Government as against the importance of letting private citizens use the same resources by having to pay less taxes, as well as by considering whether the program is as important as some other Government programs.

So intrinsic merit means a judgment about social priorities, Government sector versus private sector, and within the Government sector both. What I meant to convey was that as far as stabilizing the economy and keeping its momentum going, whatever decisions are made about the size of the Government within fairly broad limits, we can still make the economy operate with full employment and grow properly if we take the appropriate tax measures and monetary measures.

Representative RUMSFELD. I am glad to have that elaboration then. Would it be correct to say that you see some possible dangers of fiscal drag as stated yesterday, in the event that there isn't a good balance between public and private? Do you worry about incentive?

Mr. TOBIN. The fiscal drag is a little different problem from the question of the general size of the public sector relative to the private sector. Now I think that the fiscal drag problem in the tax structure can be offset by expenditures by the Government or by transfer payments as well as by tax reduction.

A good bit of those tax yields that you are quoting Dr. Burns about comes from trust fund activities, of which social security is the main example. The money is also paid out, and the net effect is a transfer through the Government rather than a use of resources by the Government.