

Federal budget cash deficit

[In billions of dollars]

Item	Fiscal year—		
	1966	1967	1968
Stated deficit plus no tax increase.....	\$3.3	\$6.2	\$9.5
Plus sales of financial assets.....	3.0	3.9	5.3
Equals budget financing requirements.....	6.3	10.1	14.8

Source: Budget message, January 1967, pp. 448 and 467.

This would be too large a deficit for the probable state of the economy. The first question is the extent to which therapeutic action ought to be taken on the expenditure side of the budget. It is useful here to put the proposed budget in terms of the annual rate of increases proposed. If we schedule out proposed expenditures for fiscal year 1968 on a quarterly basis, by the final quarter of that fiscal year total outlays would be at about a \$174 billion annual rate (on the national income basis). They would thus be rising at the rate of 9.3 percent per year from the level of the last quarter of last year, in other words, the last quarter of 1966. And the proposed annual rate of increase for nondefense outlays is almost 11 percent—considerably more than double an essentially noninflationary rate of growth for GNP.

(The table referred to follows:)

Federal outlays on a national income basis

[Seasonally adjusted annual rate in billions]

Item	1966, 4th quarter ¹	1968, 2d quarter		Annual rate of increase (percent)	
		Budget message ¹	Suggested	Budget message ¹	Suggested
National defense ²	\$65.5	\$73	73	7.5	7.5
Others.....	86.7	101	96	10.7	7.0
Total.....	152.2	174	169	9.3	7.2

¹ Projections that on a quarterly basis seem roughly consistent with fiscal year estimates in the budget message.

² National defense purchases of goods and services.

Source: Department of Commerce for 3d quarter 1966 data.

What, therefore, would the budget look like if the \$5 billion or so of fiscal restraint were applied to nondefense expenditures instead of to taxes? The fact is that these outlays for services supplied by the private sector could still rise at the annual rate of 7 percent—still 50 percent higher than the noninflationary growth rate for GNP.

Thus limiting the rise in these nondefense outlays is a reasonable budget target. While expenditures trends cannot be sharply deflected in the short run, the end of fiscal year 1968 is over 16 months away. And present economic uncertainties give us time to achieve this somewhat more moderate growth in these nondefense outlays.

Would this more moderate rise be consistent with how people want to divide their incomes between the public and private sectors? This is really the fundamental expenditure question. In one survey-study,