

comes evident that the economy requires overall stimulus rather than restraint. In addition to its business cycle implications restoration of the credit, and accelerated depreciation allowances, is important for long-term economic growth and for improving our international competitiveness.

THE FEDERAL BUDGET AND THE ECONOMY

As we stated in our comment on last year's Economic Report, the timing of Federal budget expenditures, especially procurement of durable goods, as in the defense buildup, is quite important for evaluating the economic impact of the budget. Similarly, the manner in which revenues are raised has differing effects on the economy.

The most impressive budget-reference change in the Annual Report of the Council is the shift from the administrative budget to the national income accounts basis. While the latter is far preferable as an indicator of the economic effects of Government spending and taxing, it does have certain weaknesses in this respect. As just noted, the economic impact on the business sector of rising defense procurement occurs when the orders are placed, not when they are paid for (as in the consolidated cash budget) or when they are delivered (as in the NIA budget).

When defense orders are rising, as from mid-1965 to mid-1966, the economic impact is understated in both budgets. If, as the Economic Report indicates, there has been a turnaround and the rise in defense spending is moderating, both budgets will overstate the stimulus to the business sector, especially when the depressing influence of the accelerator effect is added to the delayed budget-response effect.

In addition to this timing defect, the NIA budget also fails to take into account the impact of Government financing on money markets and interest rates which, in turn, obviously influence business decisions. It is necessary to consider the consolidated cash budget to explore this relationship—in particular to discover whether fiscal policy is reinforcing or running counter to monetary policy. The national chamber in 1962 responded to a request from the President to look into the problems of Federal budget presentation by proposing eventual replacement of the administrative budget by a comprehensive cash budget. With your permission, Mr. Chairman, I would like to introduce into the record of these hearings a copy of the report of the ad hoc Committee for Improving the Federal Budget that was approved by the chamber's board of directors on October 19, 1962. This report is attached as appendix A.

Chairman PROXMIRE. That will be printed in the record at this point, Dr. Madden.

(The material referred to follows:)

APPENDIX A

CHAMBER OF COMMERCE OF THE UNITED STATES,
Washington, D.C., November 19, 1962.

THE PRESIDENT,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: In accordance with your request, I appointed a committee to look into problems of federal budget presentation and offer suggestions on