

half. Even if this occurs it would seem unlikely to be sufficient to change the general picture.

*Fiscal trends and national priorities*

Fiscal policy has an immediate impact on short-term economic developments. But it must also be considered in a larger context. Fiscal policy is the means by which we decide how much of the national productive resources will be devoted to collective purposes through government, and how much will be left at the disposal of private parties for their individual purposes.

There is no formula by which the proper division may be decided. It is a matter of priorities—whether an additional dollar spent by government will yield more of value to the citizenry than that same dollar left in their hands to be spent as they individually see fit.

It is easy to compile a long list of needs that might be supplied by additional government action—in the fields of health, education, civic improvement, etc. The Report of the Council of Economic Advisers supplies an impressive discussion along these lines. But this doesn't decide the issue since any individual can compile an equally long list of his unsatisfied private needs and desires.

There are unsolved problems in the area of government responsibility, but there are likewise individual problems that we would like to solve.

Thus we are left with the question: Assuming that we are not going to abolish our society of individual responsibility, and devote 100% of the national income to collective efforts for social purposes, how do we decide the proper division of resources between government and the private sector?

This is not a question on which anyone, including the NAM, should speak dogmatically. But an inspection of fiscal trends in recent years leads to at least a *prima facie* presumption that the expansion of government activities has exceeded anything that can be justified by a reasonable appraisal of the priorities in the minds of the American people.

A summary of the relevant data since 1959 is presented in Table 3, appended. The results are interesting and in some respects startling.

First, over the nine-year period between fiscal 1959 and 1968 the growth in expenditures has been 87%. But this is not, to any important degree, the result of military needs arising from the Viet Nam War. Defense expenditures over this interval will have increased by 59%, as compared with a 115% increase in non-defense spending. In this perspective, the proposed tax surcharge cannot realistically be regarded as necessitated by the growth of military needs, which everyone will concede have a high priority.

An even more startling result is observed if the nine-year span is divided into three-year intervals. Apparently, in the latest of these three-year intervals, the growth of government will have greatly accelerated if the Administration's programs are carried out. One might have expected that the sudden surge of military needs since 1965 might have restricted the growth of other government activities. Instead, non-defense government outlays have been increasing at a substantially greater rate than in the earlier periods. It is hard to believe that this can be in accord with a genuine ranking of national priorities.

A third significant fact revealed in Table 3 is that in the middle period, 1962 to 1965, federal expenditures grew at a somewhat slower rate than either before or since. This seems to be a reflection of the slower growth of revenues in that period, which is the one in which the tax reduction of 1964 was enacted. I am sure that you will recall the general satisfaction in the country with the results of that tax reduction and with the retardation in the growth of federal expenditures which made it possible. Apparently, the priorities of the population were such that they welcomed an opportunity to spend more of their money individually and somewhat less through government. It is difficult to believe that they would take an opposite position at this time and accept a higher level of government non-defense activity as a fair return for a tax increase.

Throughout the period there has been a rough but noticeable correspondence between the rates of increase in revenues and in expenditures. This creates a reasonable presumption that the expansion of government spending is the result of the effectiveness of our tax system in providing the necessary revenues, rather than a reflection of carefully-weighted national priorities.

We do indeed, as the Council of Economic Advisers points out, have a highly efficient revenue-producing engine in the federal tax system. But it is important to remember the nature and purpose of that engine. It is a pump, which draws funds out of the private economy and makes them available to government. But