future trend of the economy. But it does require attention to the surplus that would result at high employment. The present budget policy of the Government indicates that the budget will be in deficit at high employment, a policy that falls short of the stabilizing budget rule which we believe to have withstood the test of time. At high employment—and we now have high employment—there should be a moderate surplus in the Federal budget.

The built-in flexibility provided in the CED's stabilizing budget rule may not always suffice to avoid inflation or recession, however. If further action is needed to deal with these conditions beyond the swings that the automatic stabilizers generate, deliberate variation of the balance in the Federal budget supplies the chief tool that is available.

We have argued in earlier CED policy statements for agreement in advance, between the President and both Houses of Congress, on a method for quickly enacting temporary changes in tax rates as a way of stopping a recession and promoting recovery, or holding back excess demand and averting inflation. This would require that means be devised for putting the tax change quickly into effect and for assuring its termination at some point.

Time will be wasted in searching for an agreement between the Executive and Legislative branches of government on continuing authority to practice a discretionary fiscal policy. For this reason, in a statement issued last December "A Stabilizing Federal Budget for 1967," we expressed our preference for a temporary across-the-board tax increase for the calendar year 1967 to the extent that it is needed to provide a surplus in the Federal budget. We repeat that recommendation now.

Expenditure Reductions

With the economy operating at or near the peak of its capacity as we enter 1967, it is especially important that the Federal Government examine its spending plans with extreme care. The total of Federal expenditures must be such that these demands together with the total of demands from the private sector as a whole do not exceed the economy's potential to produce at stable prices. As we said in our program statement in December,

> This committee believes that holding down the rate of Government expenditure growth would be preferable to raising taxes as a way of achieving the necessary surplus; temporary tax increases tend to remain in effect and the revenues they generate tend to be absorbed in permanent spending programs. But it would not be realistic to expect the required expenditure reduction in the next 6 to 8 months. when it is most needed.

The Federal Government must also assure itself that the uses to which it places resources are at least as productive as the uses to which they would be put if they were available to the privatee sector. It is in this connection that the issues raised in chapter 4 of the Council's report on the "Selected Use of Economic Growth" and by the CED in its policy statement "Budgeting for National Objectives," are so very important. In this latter report, the CED supported President Johnson's "planning-programing-budgeting" proposals of August, 1965 and suggested new Congressional procedures for better ways to define and program the budget in order to meet our national objectives.

As maintained earlier in this statement to the joint economic com-