Even with the best definitions of receipts and expenditures, it is impossible to judge whether a particular level of budget surplus or deficit is by itself expansive, restraining, or neutral in economic impact—and the budget surplus or deficit for a particular year should not be used in that oversimplified way. The expansionary or restraining influence of a budget surplus or deficit of a given absolute size depends on many factors, such as the composition of receipts and expenditures, changes in tax rates and spending totals, and private spending reactions to government fiscal actions.

However, even though little significance can be attached to the size of a budget surplus or deficit *per se,* it is generally possible to say that an *increase* in a budget deficit is expansionary; that a *decrease* in surplus is expansionary; that an *increase* in a surplus is restrictive; and that a *decrease* in a deficit is restrictive. Thus, by dealing with *changes* in surpluses or deficits rather than absolute levels for a single year, it is usually possible to judge with some accuracy the overall impact of fiscal policy changes upon the national economy.

In using budget data for fiscal policy purposes, it must be borne in mind that the economy influences the budget as well as the other way around. A revenue increase or decrease can come about either through a discretionary change in tax rates or, without any change in tax rates, simply in response to increases or decreases in taxable private incomes. For purposes of judging the impact of Federal fiscal policy, therefore, it is necessary to deal not merely with changes in the budget surplus or deficit but to distinguish for a particular budget year between the effects of deliberate changes in tax rates or expenditures and the effects on tax yields or transfer payments induced by changes in the level of income or employment. In order to aid the ready evaluation of these effects, the *high employment budget surplus* concept was developed a few years ago, and has been referred to from time to time in explaining the President's fiscal policy recommendations to the public and the Congress.

The *high employment budget surplus* is calculated by comparing actual expenditures with hypothetical tax revenues and transfer payments at assumed high employment. A given budget—i.e., an expenditure program and a set of tax *rates*—may show an *actual* deficit in a year of depression, while under conditions of high employment the same budget would yield a large surplus. A second budget, in effect in a year of moderate recovery, might show a slight surplus just because it was a year of recovery, but the second budget might show a smaller *high employment* surplus than the first. The first budget would probably be more restrictive on the economy than the second, although a superficial comparison of their *actual* surplus or deficit would suggest the opposite conclusion.

The Commission believes that the *high employment surplus* is a budget concept which has served a useful role in increasing understanding of the essentials of budget policies for full employment, and it favors steps to keep the basic ideas embodied in this measure before the Congress and the public.