

Revenues, however, were overestimated by roughly \$11 billion, yielding a deficit in the new unified budget of about \$24 billion. The shortfall of receipts partly resulted from the failure to win approval of a tax surcharge, which was initially counted on to provide \$4.7 billion of revenue. At the same time, the business slowdown caused a \$2.3 billion shortfall in corporate profits in 1967 below the Administration's forecast. Fiscal '68 revenues were also dented, as the Treasury had anticipated, by the cessation of the speedup in corporate income tax payments. The new bill provides for further acceleration of these payments in fiscal '69.

An Illusory Tax Reduction

Owing to the miscalculations of fiscal strategy and the huge increases in welfare spending, both businesses and individuals have, in effect, been burdened with a steeply rising tax bite. This makes severe expenditure restraint in the 1969 budget necessary if future tax relief is to be plausible.

When the corporate income tax rate was reduced in two stages to 48 per cent from 52 per cent under the Revenue Act of 1964, the tax payment schedule was speeded up, thus postponing the full reduction in payments for corporations with liabilities in excess of \$100,000. In 1963, the Treasury promised that "in no year will any corporation with constant income have to pay more tax than it would have been paying this year." But the stepped-up acceleration imposed in 1966 violated this principle and levied even steeper payments on corporations than those under the old 52 per cent rate. As shown in the table, the percentage of income required to be paid by corporations pierced the 52 per cent rate in 1966 and jumped sharply in 1967.

Individuals and smaller corporations had been led to believe that the reduction in income tax rates would provide permanent tax relief with the intention of stimulating people to greater effort and enterprise. For individuals in the middle and lower income brackets, this tax relief has proved to be short lived. In order to pay for the huge increases in Social Security benefits and the Medicare program, payroll taxes were increased sharply. The taxable wage base jumped from \$4,800 in 1965 to \$6,600 in 1966 and to \$7,800 in 1968. The combined employer-employee Social Security tax rate rose from 7.25 per cent in 1965 to 8.8 per cent in 1967 and is scheduled to climb

Corporate Income Tax
Tax and Payment Rates for a Large Corporation
with Constant Income, Calendar Years

	Tax Rate as a Per Cent of Income	Tax Payments as a Per Cent of Income
1968	52.0%	52.0%
1964	50.0	52.0
1965	48.0	51.4
1966	48.0	53.8
1967	48.0	57.4
1968 present law	48.0	48.0
1968 proposed	52.8	55.7

to 9.6 per cent in 1969. The Tax Foundation estimates that in 1967 roughly one quarter of typical four-person families and a third of five-person families were paying more Social Security taxes than income taxes.

Tightening the Fiscal Reins

Over the past decade, original projections of budget expenditures have generally turned out to have been too low. New Government programs have been added on to older and often outdated ones with little consideration of their potential costs.

Rapid growth of new programs launched just before the Vietnam War became a serious burden on the budget, creating severe difficulties which were temporarily met only by fiscal finesse. The Government's financial needs were temporarily concealed by devices for maximizing revenue such as stepping up the payment of income taxes and for minimizing budgeted expenditures through sales of participation certificates. These devices, however, proved to be only expedients.

The tax legislation before Congress represents the culmination of a prolonged effort by both the Administration and Congress to reach an understanding on more effective expenditure control. If enacted, it will provide for the spending retrenchment so badly needed if the Budget is to become a stabilizing influence. Moreover, cutting existing unspent appropriations as well as new money authorizations would give the next session of Congress—and those that succeed it—much more control over the Federal purse strings. There is no guarantee that this would mean slower growth of spending in the years ahead. But it would at least mean more clear cut Congressional responsibility.

Trade Policy at the Crossroads

A year after the successful conclusion of the Kennedy Round, the accomplishments of post-war trade policy are in jeopardy. Intense inter-

national competition in industrial products—partly the result of earlier trade liberalization—has combined with acute balance-of-payments