budget submission for AID is already the lowest in many years. To gut that budget for the sake of perhaps two-tenths of a percentage point reduction in the surtax seems, to me at least, a strange inversion of priorities.

There are some who propose large reductions in public works programs. Wherever it is possible to reduce or stretch out construction programs, the President's budget proposes it. The real control over public works comes in the "new starts" provided each year. These have little effect on immediate expenditures, but do control the rate of outlays several years ahead. Realistically, however, the hope for major reductions here is, I submit, chasing a will-o'-the-wisp.

In every recent year the Congress—usually by a large majority—has substantially increased the new starts in public works programs—in fiscal 1968, from a proposed 9 to over 40. Holding up a tax increase while waiting for a cut in such programs will most assuredly not result in must fiscal restraint.

There is also a body of opinion which holds that failure to pass a tax increase quickly may make it possible to extract further expenditure reductions from the administration—after which some tax increase should be enacted. In my view this is a dangerous game of "chicken."

In the first place, substantial expenditure cuts were made in the fall of last year—and no tax increase was forthcoming. Second, while this game is being played, the continuation of large deficits is adding to inflationary pressures. Third, such cuts—perhaps $2 billion to $4 billion in magnitude—would substitute for several percentage points in the surtax.

This translates in several tenths of a percentage point relative to individual income. In a budget which is already tight, and in a situation where the Nation faces serious social problems—particularly in its large cities—I do not believe that major Federal social programs should be traded for the gain of a few tenths of a percentage point in after-tax income.

It is not as if Federal expenditures in recent years had been taking an ever-larger share of our Nation's income and output. Apart from the social security and medicare programs, this is not the case. Federal expenditures—excluding the social insurance programs—represented 16 percent of GNP in the late 1950's. In 1969, *including* 3 percent for the costs of Vietnam, they will account for 16.9 percent of GNP, and will have dropped sharply to 13.9 percent if we exclude Vietnam.

Social security benefits and medicare payments have indeed been rising as a percentage of GNP—from 3 percent in the late 1950's to 4.4 percent in 1969. But, whatever one believes about the desirability of these increases, they have been overwhelmingly approved by the majority of Congress. They scarcely constitute a reason for denying a temporary increase in taxes to help provide the needed fiscal restraint during a period of extraordinary defense expenditures. Indeed, were it not for Vietnam, Federal expenditures, including the rapidly rising social security benefits, would be a lower percentage of GNP in 1969 than in the late 1950's.

In summary, I think a sharp reduction in the Federal deficit is required to prevent excess demand inflation an undesirable tightening of credit markets, and a further deterioration in our balance of pay-