a pronounced depression in housing. Enactment of the tax surcharge substantially reduces the risks of a recurrence of these distortions and introduces considerable fiscal and monetary flexibility to deal with the uncertainties in the year ahead.

In our opinion the tax surcharge by itself will not achieve all of the fiscal restraint needed in the current situation. It is especially important that the Federal Government examine its own spending plans with great care. As the Nation's priorities change toward more concern about problems of cities, poverty, and education, new areas of spending become important. Therefore extra effort must be taken to assure both the necessary restraint in the total of expenditures and the needed reallocation of spending within the Federal budget. Among the areas where we would assign lower priorities, and hence seek expenditure reductions, would be, for example, in space exploration. Substantial cuts should be made in agricultural subsidies especially in light of the Council's statement that the bulk of farming now originates on large farm businesses rather than from poor farm families and thus the bulk of these subsidies do not meet their stated objectives. Reflecting the current shortage of resources for investment and the very high productivity of private investment, public investments in reclamation, harbors, rivers, and highways must be reduced, deferred, or stretched out and also be made to pass more rigid and competitive requirements.

Given the strength of private and public demands, the low level of unemployment and the evident strain in labor markets, and the rate of increase in prices, Congress must act now to provide a substantial amount of fiscal restraint. Prompt enactment of the tax increase and sufficient expenditures cuts to bring the high employment Federal Government budget on national income and product account into a modest surplus must be the objective of Government policy.

A BUDGET POLICY BEYOND 1968

Except for commenting on studies directed to the problems and opportunities presented by a deescalation of the war in Vietnam, the report contains few references to a fiscal program for the future. While much might be said about the effects of the changes in national priorities on the composition of future Federal expenditures, our comments here are concentrated on the problems of taxation. One major objective in this area relates to improving the flexibility of fiscal policy within the current tax structure. Another concerns changes in the tax structure designed to accelerate economic growth and improve the flexibility of the tax system as a stabilization tool.

The quickest and most effective method of affecting private spending, when change is needed, and with a minimum of carryover into a later period when change is not needed, is through a temporary change in tax rates. It is especially important that a generally accepted method of tax rate change, both up and down, be available for prompt use when recession or inflation threaten. Too often in the past we have been confronted with the alternatives of raising or lowering expenditures or relying solely on monetary policy.

To strengthen our ability to use temporary changes in tax rates as a way of stopping a recession and promoting recovery or holding back