

tax expenditures use budget resources in the same way that direct expenditures or net lending do. In most cases, the special tax provisions are alternatives to direct expenditures or net lending to achieve the same purpose.

The Annual report of the Secretary of the Treasury for fiscal year 1968, which was issued this week, contains for the first time a detailed description and discussion of these tax expenditures and estimates of the amounts involved. To bring this material up to date, the Treasury staff has prepared an analysis of tax expenditures related to the budget for fiscal year 1970 which I am submitting as a supplement to my statement. The revenue costs of the special tax provisions are presented alongside the budget outlays. This makes it possible to get a more complete picture of total government expenditures for various functions. You may be surprised to find that tax expenditures approach or even surpass the budget outlay for certain functions.

The purpose of this special analysis is to present information which will help us to use budget resources most effectively. We can obtain more efficient use of resources by the Federal Government if explicit account is taken of all calls upon budget resources. In this way the importance of different budgetary objectives and the effectiveness of alternative uses, whether through direct expenditures, loan subsidies, or tax expenditures, may be fully understood, examined, and re-evaluated periodically.

I should inject a note of warning at this point. As the Committee knows, the whole subject of tax expenditures is highly controversial and the figures presented in this Treasury report are themselves certain to be controversial. The figures may vary depending on the assumptions used, and we do not claim that our figures and assumptions are the last word. Perhaps the Committee might want to have its staff analyze this document—perhaps in conjunction with the staffs of the Joint Committee on Internal Revenue Taxation and the Appropriations Committees. The staff of the Treasury will be pleased to cooperate. Many of the provisions in the Tax Code are virtually the same as appropriations and should be considered by the Congress as they review the various Federal programs.

Let me turn now to four areas where I believe there is urgent need for action by the United States or by those nations whose economic future is closely linked with our own.

THE NEED FOR TAX REFORM

We have an income tax system which has demonstrated its strength—\$128.3 billion of revenues expected in fiscal year 1970—and its flexibility. The income tax is one of our country's strongest assets, and we must strive to improve it and perfect it.

Our income tax system needs major reforms now, as a matter of importance and urgency. That system essentially depends on an accurate self-assessment by taxpayers. This, in turn, depends on widespread confidence that the tax laws and the tax administration are equitable, and that everyone is paying according to his ability to pay.

We face now the possibility of a taxpayer revolt if we do not soon make major reforms in our income taxes. The revolt will come not from the poor but from the tens of millions of middle-class families and individuals with incomes of \$7,000 to \$20,000, whose tax payments now generally are based on the full ordinary rates and who pay over half of our individual income taxes.

The middle classes are likely to revolt against income taxes not because of the level or amount of the taxes they must pay but because certain provisions of the tax laws unfairly lighten the burdens of others who can afford to pay. People are concerned and indeed angered about the high-income recipients who pay little or no Federal income taxes. For example, the extreme cases are 155 tax returns in 1967 with adjusted gross incomes above \$200,000 on which no Federal income taxes were paid, including 21 with incomes above \$1,000,000.