

June 7, 1972

I. First, I support the Administration's request for an increase of debt ceiling from \$450 to \$465 billion.

In absence of new legislation, will revert to \$400 on July 1st, but as Mr. Walker pointed out, the debt subject to statutory limit stood at \$429 on May 31, is likely to grow fairly steadily -- about 450 at end of year -- 465 mid-March 1973.

The Treasury's arithmetic is compelling.

I see no practical alternative to adoption of the new ceiling recommended.

II. The proposed increase of the debt ceiling, just like the increase last March, arises from the continuance of a large budget deficit this fiscal year,

and the prospect of another large deficit -- indeed larger -- in fiscal 1973.

- (a) Find this prospect of a larger deficit spending disturbing because economy is now expanding briskly.
- (b) Vigor of economic expansion is attested by growth of employment. Number of nonfarm jobs rose at an annual rate of over 3 billion between December 71 and May 72.
- (c) Vigor of economic expansion is attested also by the ability of the economy to expand in recent months despite the drag on the economy exerted by the huge overwriting of income tax -- annual rate of \$10 billion since January.

This overwithholding has more than nullified the fiscal stimulus that had been planned for this year through tax reduction.

(d) With economy expanding briskly, the time has come to reduce the Federal deficit. The time has come to count less heavily on governmental fiscal stimulation, if you seek to prevent the renewal of inflation.

(e) But as I examine the budgetary picture, it appears that Federal deficit in fiscal 1973 will be somewhat larger than this year.

(f) Moreover, a dangerous bulge in the deficit is in prospect between the months of March and May -- \$24 billion refund.

(g) This concentrated fiscal stimulus to the economy may cause a sharp run-up in prices, with sharply rising demand pressing against slowly expanding supply.

III. Let me now examine very briefly the reasons for the large deficit in 1972 and prospective 1973.

(1) The most obvious cause is the continuance of rapid expansion of spending --

1966-16	1970-12
1967-25	1971-15
1968-20	1972-22
1969-6	1973-17

(2) Another cause is reduction of tax rates legislated by Congress in Rev. Act of 69 and Rev. Act of 71, has worsened reduction between rev. and exp.

(3) Failure of economy to operate this year or last at full capacity.

Full employment has eluded our grasp of late and seems likely to elude us also in the months immediately ahead; this too has inhibited growth of revenues.

The shortfall of revenues will be reduced as full employment is approached. However, an early end of deficits is not in sight in view of the growth of expenditures that seem to be built into the vast mass of Federal programs.

IV. In view of the large deficit that is now in prospect and the danger that this will again distort economy, the Congress will have to choose between a cutback in expenditures and an increase in taxes.

I earnestly urge the Congress to follow the route of curbing expenditures instead of raising taxes.

Following reasons:

(a) Government expenditure has been rising much faster than our national production.

More and more of what our citizens produce goes into governmental coffers.

<u>Total</u>	<u>Taxes</u>			<u>Total</u>		<u>Federal</u>		
		<u>Fed</u>		<u>GNP</u>	<u>NNP</u>	<u>GNP</u>	<u>NNP</u>	
21	23	14	15	1950	21	23	14	15
28	30	19	21	1960	27	30	18.5	20
31	34	19.7	21.6	1970	32	35	21	23.1
31	34	19.0	20.9	1971	33	36	21.2	23.3

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continuation of this trend may sap the vigor and endanger the growth of private enterprise in our country; ec. trouble.

(b) Much of the expansion in spending has been hastily planned, is proving wasteful and time for a reappraisal is overdue.

(c) American people feel they are carrying a very heavy tax burden; further increase in taxes may cause social and political trouble.

I. I fully recognize that there are great pressures within our body politic to increase Federal spending instead of curtailing it.

If efforts to curtail spending are to succeed, we will have to depart from our traditional methods of budgetary management.

When I was before this Committee in February, I urged two basic budgetary reforms --

First, a budgetary ceiling to be enacted for each fiscal year by the Congress --

a ceiling that would be absolutely rigid --

a ceiling that would apply equally to the Executive and the Congress.

Second, zero-base budgeting --

a procedure that would require the Appropriations Committees to seek justification for the full expenditure requested for each government program, not only for the projected increase.

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I realize that these suggested reforms -- particularly an expenditure ceiling -- appear undesirable to some members of this Committee, in part because it would increase the power of the President.

If Congress not inclined to go that way -- although you've done so partly in the past under leadership of Wilbur Mills -- I hope you will consider two other proposals that share same objective:

first, single appropriation bill

second, Joint Committee of the Congress on

Revenues and Expenditures -- membership

drawn from two appropriations committees --

Ways & Means

Senate Finance.

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