Short Summary of

A Statement on National Policy by
The Research and Policy Committee of the
Committee for Economic Development

TAX AND EXPENDITURE POLICY FOR 1949

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This summary is designed to direct the reader's attention to the highlights of the full statement, issued May 15, 1949, under the above title. In this space it can do no more. For a broader understanding of the problems discussed and the policies recommended, the full statement should be read. (Also pertinent to this subject are the CED statements *Taxes and the Budget: A Program for Prosperity in a Free Economy,* issued in November, 1947, and *Monetary and Fiscal Policy for Greater Economic Stability,* issued in December, 1948. Available on request in both full and summary form.)

I. INTRODUCTION

Success in maintaining America's world leadership depends in part on demonstrating that our system of government is superior to authoritarian systems in meeting the economic and social problems common to both. In this demonstration tax and budgetary policy plays a strategic role. A sound fiscal policy can exert a strong stabilizing influence on the economy. It can be our most effective stimulus toward efficiency in government. And unlike direct controls over prices, wages and production, fiscal policy does its work in harmony with individual freedom.

This policy statement deals with tax and budgetary policy for the fiscal year 1950. It examines the President's budget proposals and the issues they raise, suggests means of making control of government expenditures more effective, and spells out the implications of spending on the scale proposed.

II. THE 1950 BUDGET

The President's budget for fiscal 1950, plus an unofficial estimate for foreign military aid, calls for $46.3 billion.[1] This is $9.8 billion more than actual expenditures in 1948. The $9.8 billion rise in two years is the net result of decreases of about $3.8 billion in a few major classes of expenditure and increases of about $13.6 billion in a great many others.

The chief forces at work to raise Federal expenditures are: 1) a great increase of programs for national

[1] The cash-consolidated budget is used through this discussion.

defense and foreign aid; 2) a large increase of "domestic" programs, mainly for social welfare and resource development; 3) the proposed payment of $2 billion of accumulated dividends on veterans' life insurance; 4) an increase of about $750 million for farm price support operations resulting from lower farm prices; and 5) higher costs owing to higher prices and government wage rates.

What's in this record peacetime budget? How does it compare with the 1948 and 1949 budgets? The following table broadly answers these questions:

pressing for an expenditure of Federal funds. Only two major items, veterans' readjustment costs and international affairs and finance, appear likely to shrink appreciably, and that shrinkage may be more than offset by expansion of other programs.

The budgetary facts and prospects just reviewed bring us face to face with this basic issue of expenditure policy: Can we afford to expand government activities so rapidly and on so many fronts at once? Or are we reaching the margin where the economic and social costs of such activities outweigh their benefits?

	Fiscal Years (In Billions)			
	Actual 1948	Estimated 1949	Proposed 1950	Net Increase Over 1948
National Defense	$12.2	$11.9	$14.3	$ 2.1
International Affairs and Finance	5.8	7.4	6.9	1.1
Military Aid to North Atlantic Countries	—	—	.6	.6
Veterans' Services and Benefits	6.8	6.7	7.9[1]	1.1
Interest on the Public Debt	3.9	3.9	4.0	.1
Social Welfare, Health and Security	2.1	2.6	4.5	2.4
Other Activities	5.7	7.6	8.1	2.4
Totals	$36.5	$40.1	$46.3	$ 9.8

[1] Including estimated $2 billion veterans' life insurance dividend.

Even at the high national income level assumed by the Treasury (about $230 billion), the yield of existing tax rates would fall $1.3 billion short of the proposed expenditures (including the unofficial $600 million estimate for North Atlantic military aid), without making any provision for debt reduction.

The President has proposed higher rates and broader coverage of payroll taxes as part of his program for expansion of social security. This tax increase, if enacted, would add $2.2 billion to cash receipts in fiscal 1950, and would produce a cash surplus of $900 million.

The Federal Government is trying to do an unprecedented number of things at once. And the President visualizes still higher expenditures in the future. Furthermore, there seems to be no limit to the projects

III. THE CONTROL OF EXPENDITURES

Federal expenditures that represent one-fifth of total national income raise in compelling form the issue of balancing public against private spending. If government continues to expand so fast, and in so many directions at once, we will suffer damaging consequences to private economic effort and individual freedom of action.

Each new expenditure should be put squarely to this test: Is it worth the additional taxes needed to finance it? Does the gain from added expenditure exceed the loss from higher taxes?

We will have to accept large Federal budgets until true peace is achieved. Government functions which are part of our national policy must take priority over the private expenditures they replace. But economy in government and reduction in projected government-expenditures are compatible with this policy.

How to Make Control of Expenditures Effective. Effective control of government expenditures requires the combined action of the Executive, the Congress and the public. Despite recent improvements, the Administration's budget procedures stand in need of reform.

Improvement of Congressional policy requires the perfecting and implementing of the procedure implicit in the Legislative Reorganizaztion Act of 1946. The 81st Congress set a later date (May 1) for agreement on the legislative budget fixing the maximum limit on expenditures. A second necessary step is to provide an adequate staff for appropriation work. The third step would be to consolidate all appropriation bills into a single omnibus bill.

More informed public participation in the control of government expenditures depends on four main improvements in budgetary procedure: 1) to make summary budget tables more meaningful, the Committee repeats its earlier recommendation that the cash-consolidated budget be substituted for the administrative budget in presenting budgetary facts to the public. 2) Policy issues should be clarified by improved classifications, through the use of a "performance budget", in which each activity and project will stand by itself. 3) A shorter budget statement should be issued. 4) Choices on new and proposed programs, and on existing commitments for the future, should be more sharply defined in order to help the public in its decisions.

Achieving Economy in Government. With each billion dollars added to the federal budget, economy becomes an issue of more direct concern to all taxpayers —which means the whole population. For the most part, inefficiency in government takes intangible forms —bad organization, deficient procedures, and the lack of incentives to do things in the least expensive way.

The Hoover Commission has made an outstanding contribution toward economy in defining the issues, stimulating public awareness, and offering specific suggestions for reform. The Committee commends the report of the Hoover Commission for early consideration and appropriate action. Individual citizens, civic groups and news organs, by exercising vigilance and exposing waste, inefficiency and duplication, will aid in attaining the goal of economy in government.

Controlling New Items of Expenditure. Apart from doing the existing jobs of government at lower cost, the search for savings will be most fruitful in those areas where we are currently being asked to undertake new or expanded commitments, rather than those in which we are bound, legally or morally, by past actions.

In the 1950 budget we find $3.4 billion depending on new legislation to which we are not yet committed. In this amount and in the expansion of programs already authorized by statute lie the best opportunities for making free choices affecting the expenditure side of the budget.

Savings can and should be made without sacrificing essential parts of our programs for military security and social welfare. But constant vigilance will be needed to avoid the conversion of savings on one front into unwarranted expansion on another front.

IV. BUDGET POLICY

The President's budget recommendations would lead to a cash surplus of a little over $3 billion at a national income level of $230 billion. He would achieve this surplus by means of a tax increase calculated to yield $4 billion in a full year (in addition to the social security payroll taxes), mainly on corporate profits, to offset expenditure increases.

This policy reflects the President's belief 1) that a surplus is necessary to combat inflation, 2) that debt reduction is desirable in conditions of high employment, and 3) that a tax increase is the best means of achieving the surplus.

The Principles of Budget Policy. Any recommendation on budget policy for a particular year reflects, explicitly or implicitly, certain principles or attitudes about budget policy in general. The Committee has previously presented a program for a stabilizing budget policy.[1] Tax rates would be set at levels designed to cover expenditures and provide a reasonable surplus for debt retirement when employment is high. This policy would hold tax rates constant, unless important changes were made in the level of Federal expenditure programs. The stable rates would result in higher revenues in periods of inflation and lower revenues in depressions. This system, once established, would contribute to economic stability without reliance on impossibly difficult economic forecasts and improbably quick legislative responses.

It may be undesirable to raise tax rates to meet a large and clearly temporary expenditure increase. But the basic principle that a permanent increase in government expenditure programs should be met with an increase in tax rates would be a valuable check on unnecessary expansion.

Budgetary policy alone cannot bring about economic stability. Intelligent monetary and debt management policies are also essential to a successful program for greater economic stability.

We consider it a reasonable interpretation of our general principle at present that the budget should be set to yield a $3 billion surplus at a national income of about $230 billion.

Tax policy is not merely a question of totals. Defects in our tax structure which reduce the vitality and efficiency of our productive system should be remedied.

Budget Policy for Fiscal 1950. The expenditures now before Congress confront the country with the necessity for choosing among three courses of action:

1) To hold expenditures down, so that a moderate cash surplus would be yielded by existing tax rates under conditions of high employment.

2) To allow expenditures to rise and to increase tax rates, so that tax revenue would cover expenditures and produce a moderate cash surplus at high employment levels.

3) To allow expenditures to rise and not to increase tax rates, with the possibility of a small cash surplus, or even a deficit.

In the present situation the only acceptable course to follow is to reduce expenditures. Rigorous economies in government can and must be made. Whatever may be said for the "need" for certain projects that would increase expenditure, the need must be weighed against the cost. Under present conditions the cost is higher taxes or foregoing debt reduction. ***Either cost is too high, in terms of its effects on the stability and efficiency of the American economy.***

Congress and the President have the responsibility for weighing these costs. If the effort to reduce expenditures finally fails, it is the Committee's judgment that Congress must assume responsibility for raising taxes, as the least dangerous of the two other alternatives. ***But we consider a tax increase unnecessary because, barring major unforeseen international developments, expenditures for fiscal 1950 can be reduced.***

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[1] See *Taxes and the Budget*, issued November, 1947, and *Monetary and Fiscal Policy for Greater Economic Stability*, issued December, 1948, statements on national policy by the Research and Policy Committee of the CED.

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