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TAX AND EXPENDITURE POLICY FOR 1949

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A Statement on National Policy

by

THE RESEARCH AND POLICY COMMITTEE

of the

COMMITTEE FOR ECONOMIC DEVELOPMENT

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TAX AND EXPENDITURE POLICY FOR 1949

I. INTRODUCTION

For the fiscal year 1950, the President has recommended cash expenditures of more than \$46 billion, an increase of \$10 billion over fiscal 1948 and \$6 billion over the current fiscal year.[1] The taxpayer's vision of lower Federal budgets and of lower taxes to match has faded into an uncertain future. Instead, he faces the President's recommendations for a \$2 billion payroll tax increase and an additional \$4 billion general tax increase. Acceptance of these recommendations by Congress would raise cash receipts to more than \$50 billion annually at a \$230 billion level of national income.

A 45 or 50 billion dollar government bears a heavy responsibility to the American people--a responsibility to spend and tax wisely. This obligation is especially serious since effective government performance has become a major weapon in the current war of economies and ideologies.

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 that demonstration, tax and budgetary policy plays a strategic role. A sound fiscal policy can exert a strong

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[1] Except as otherwise noted, this policy statement will present budgetary data in terms of the Federal fiscal year. This runs from July 1 of one calendar year through June 30 of the next, and is designated by the second year. For example, the period from July 1, 1949 through June 30, 1950 is designated as the fiscal year 1950.

stabilizing influence on the economy. It can be our most important force making for efficiency in government. And unlike direct controls over prices, wages, and production, fiscal policy does its work in harmony with -- not at the expense of -- individual freedom of choice.

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

II. THE 1950 BUDGET [1]

From a wartime peak of $94.3 billion in the fiscal year 1945, Federal expenditures declined to $36.5 billion in fiscal 1948. This decline was, of course, the natural consequence of the end of hostilities. Moreover, it was reasonable to hope that the decline would continue. The 1948 total included large expenditures of a clearly non-recurring or dwindling character -- the cashing of veterans' terminal leave bonds, the costs of surplus property disposal, veterans's re-adjustment allowances and so on.

The decline did not continue. Instead, as Table I shows, expenditures are higher in 1949 than in 1948 and the President's budget calls for still higher expenditures in 1950. The recommendations itemized in the Budget for 1950 total $45.7 billion. In addition the President has announced, in his budget message and subsequently, that he will submit a request for military aid to the North Atlantic countries not included in the budget figures. If we tentatively add $600 million for this item, the 1950 budget totals $46.3 billion, or $9.8 billion more than actual expenditures in 1948.

The $9.8 billion rise in two years is the net result of decreases in a few major classes of expenditure and increases in a great

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[1] This discussion will refer throughout to the cash-consolidated budget rather than the administrative budget in terms of which Federal expenditures and taxes are commonly stated. For fiscal 1950, the administrative budget figures corresponding to the cash-consolidated figures in Table I would be $42.5 billion of expenditures and $41.0 billion of receipts. For a description of the cash-consolidated budget, see pp. 17-18.

TABLE I

Cash Payments to and Receipts from the Public
Fiscal Years 1948, 1949, 1950

As shown in the U. S. Budget for fiscal year 1950 [a]

(In Billions)

	Fiscal Years		
PAYMENTS TO THE PUBLIC	Actual 1948	Estimated 1949	Proposed 1950
National Defense	$12.2	$11.9	$14.3
International Affairs and Finance	5.8	7.4	6.9
Military aid to North Atlantic countries			.6
Veterans' Services and Benefits	6.8	6.7	7.9 [b]
Interest on the Public Debt	3.9	3.9	4.0
Social Welfare, Health, and Security	2.1	2.6	4.5 [c]
Other Activities	5.7	7.6	8.1
Total Payments to the Public	36.5	40.1	46.3
RECEIPTS FROM THE PUBLIC			
Direct Taxes on Individuals	21.9	19.3	19.8 [d]
Direct Taxes on Corporations	10.2	11.7	12.3 [d]
Excise Taxes and Customs	7.8	8.1	8.3
Employment Taxes	2.4	2.6	5.3 [c]
Deposits by States, Unemployment Insurance	1.0	1.0	1.2
Miscellaneous Receipts	4.4	2.9	2.4
Less Refunds	-2.3	-2.7	-2.1
Total Receipts from the Public	45.4	42.9	47.2 [d]
Excess of Receipts over Payments	8.8	2.8	.9

a/ 1950 figures include both existing and proposed legislation. Except for the sum of $600 million estimated as the net additional cost for "Military aid to North Atlantic countries", all figures are as shown in the President's budget. Revenue estimates are based on a projected personal income of $215 billion, corresponding to a national income of $230 billion.

b/ Includes an estimated $2 billion for dividend payments on National Service Life Insurance.

c/ President's proposed legislation accounts for the bulk of the increase of 1950 over 1949.

d/ Does not include the $4 billion general tax increase proposed by the President.

many others. About $3.8 billion less will be spent in 1950 than in 1948 for terminal leave payments, veterans' readjustment benefits, the U. S. contribution to the capital of the International Bank and Monetary Fund, surplus property disposal, and the postal deficit. Therefore, to explain the $9.8 billion net increase in the total budget we must find the source of about $13.6 billion of increase in other programs.

The chief forces at work to raise Federal expenditures are:

1. A great increase of programs for national 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 for accumulated dividends on veterans' life insurance. (This is a contractual obligation and annual payments in the future will be much smaller.)
4. An increase of about $750 million for farm price support operations resulting from the lower level of farm prices.
5. Higher costs resulting from higher prices and government wage rates.

The effects of higher prices and wage rates are spread throughout the budget and cannot be isolated. Moreover, the figure for each major category of expenditures is itself the sum of many individual items in which there may be both increases and decreases. With these reservations, Table II identifies the sources of the $9.8 billion net increase in expenditures from 1948 to 1950.

TABLE II

Changes in Federal Cash Expenditures, 1948 - 1950
(In Billions)

	Fiscal Years Actual 1948	Proposed 1950 a/	Change
Total	$36.5	$46.3	+ $ 9.8
Declining Programs b/	6.4	2.6	- 3.8
Rising Programs	30.1	43.7	+ 13.6
Defense and foreign aid	15.5	21.6 a/	+ 6.1
Veterans' life insurance dividend	—	2.0	+ 2.0
Farm price support	-.2	.6	+ .8
Social welfare c/	3.2	6.2	+ 3.0
Resource development d/	2.8	4.4	+ 1.6
All other e/	8.8	8.9	+ .1

a/ Includes unofficial estimate of $600 million for military aid to North Atlantic countries, not included in Budget figures.

b/ Includes veterans' terminal leave payments, U. S. contribution to capital of International Bank and Monetary Fund, veterans' readjustment benefits, costs of surplus disposal, postal deficit.

c/ Includes following budget categories: Social welfare, health and security, education and general research, labor.

d/ Includes following budget categories: natural resources not primarily agricultural, transportation and communication (except P.O.), agriculture, except price supports.

e/ Mainly interest, general government, veterans' services not elsewhere specified, housing.

In 1948 Federal cash receipts were $45.4 billion. The budget estimates show that if no new taxes are enacted receipts in fiscal 1950 would be slightly less — $45.0 billion. This Treasury estimate is based on the assumption that total personal income will continue at about the $215 billion annual rate reached in July-December, 1948, as compared with the $195 billion of calendar 1947. In other words the higher level of national income, if continued, would nearly offset the effect of the 1948 tax rate reduction upon Federal revenues.

Even at the national income level assumed by the Treasury, 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). 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, according to the budget estimates. There would then be a cash surplus of $900 million, compared with $8.8 billion in fiscal 1948.

The President's Budget Message for 1950 leaves one with several inescapable impressions regarding government expenditure policy. First, the Federal Government is trying to do an unprecedented number of things at once. It is pushing its domestic programs for social and economic betterment -- in social insurance, education, resource development, agriculture and the like -- well beyond their previous high water marks. It is undertaking the greatest peacetime preparedness program our country has ever known. And it is recognizing its new international position with the most extensive program of foreign relief, reconstruction, and military aid the world has ever seen.

Second, the President visualizes the expenditures projected for 1950 as one step in a rising expenditure trend. He states: "It must be recognized that expenditures in the fiscal year 1951 are likely to be larger than those for 1950." He adds that "expenditures for national defense can be expected to rise substantially above the level estimated for 1950." And many of the commitments we are asked to undertake now, especially in the fields of resource development and social welfare, would involve steadily rising outlays for many years.

Third, there seems to be no limit to the projects pressing for an expenditure of Federal funds. The President plainly indicates that many candidates for Federal expenditure are waiting to take up any slack which might develop through a reduction in costs of existing projects. Only because of "heavy prior commitments" and "the presence of inflationary forces in our economy" has he denied "many requests for additional funds which would normally be desirable." His 1949 Economic Report to the Congress makes the point even more strongly:

"We must pursue affirmative programs for housing and health, for education and resource development. Yet the fight against inflation prevents us from undertaking these long-range programs with the speed and on a scale that would otherwise be desirable." Quite apart from these developmental programs, it is evident that political pressure for larger direct payments to veterans, to farmers, and to the aged could add billions to the Federal budget.

These impressions are reinforced by looking at the expansion of specific expenditure programs from 1948 to 1950 and their projected costs for later years. Most striking, of course, is the $3.5 billion jump in defense outlays from $10.8 billion in 1948, excluding terminal leave payments, to $14.3 billion for 1950. As wartime stocks are used up and various military programs grow to their authorized limits, the $14.3 billion figure could rise substantially. Unofficial estimates place the out-of-pocket cost of military aid to the North Atlantic countries in future years at a level well above the first-year cost of $600 million included in Table I. As veterans' readjustment costs shrink, they may be more than offset by the costs of pension plans such as are recurrently proposed in Congress. Cash payments of interest on the debt will rise sharply as war savings bonds mature.

In other areas, only one major item -- international affairs and finance -- is now scheduled for substantial reduction in the next few years. Expanding economic and social programs at home could offset that reduction. Table III shows that the cost of social welfare and resource development programs will increase by 75 percent from 1948 to 1950 if the President's proposals become law. Social insurance and public assistance account for $2 billion of the $4.5 billion increase in this group of activities, and would of course grow steadily, though not so sharply, for decades to come. The increase of nearly half a billion dollars for highways, waterways and airways is indicative of the growing amounts of Federal money we are devoting to public works. Agricultural programs, even apart from price subsidies, are expanding by a third of a billion dollars from 1948 to 1950 and may go on expanding.

Continuation of the 1948-1950 rising trend of Federal expenditures need not be accepted as inevitable. Yet, if unchecked by successful efforts at economy -- or by unforeseen improvements in our relations with Russia -- the new trend will carry us over the $50 billion mark in the next few years.

TABLE III

Increases in Expenditures for Social Welfare and Resource Development, 1948 - 1950

(In Millions)

	Fiscal Years Actual 1948	Proposed 1950	Increase
Total	$6034	$10628	$4594
Social Welfare	3213	6228	3015
Old age and survivors insurance program; total and permanent disability program; temporary disability program	559	2245	1686
Public assistance	733	1129	396
Unemployment compensation	856	1170	314
Federal aid to education	—	290	290
Railroad and federal employees retirement	466	594	128
Public health	146	284	138
Other	453	516	63
Resource Development	2821	4400	1579
Highways, waterways, airways	963	1435	472
Land and water (flood control, power, irrigation, reclamation etc.)	493	951	458
Agriculture, except price supports	759	1093	334
Atomic energy	475	725	250
Other	131	196	65

III. THE CONTROL OF EXPENDITURES

The budgetary facts and prospects just reviewed[1] bring us face to face with this basic issue of expenditure policy: <u>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 certain activities outweigh their benefits?</u> Closely allied to this issue are three further questions:

<u>First, how can the Executive, the Congress and the public control expenditure decisions more effectively? How can Congressional procedure and public understanding be improved?</u>

<u>Second, how can government do a more efficient and economical job in carrying out the functions assigned to it?</u>

<u>Third, in what areas should we seek savings through cutbacks or deferments of projected expenditures?</u>

Federal expenditures that represent one-fifth of total national income raise in compelling form the issue of balancing

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1/ We have used the President's budget to represent current expenditure proposals. The representation is not precise or complete. For example, there is reason to believe that the social security expansion program submitted by the Administration will not cost as much in fiscal 1950 as the $1.5 billion included for that purpose in the budget. On the other hand, proposals for national defense and veterans' expenditures in excess of the President's recommendation have already made some progress through the Congress. Nonetheless, the Budget is still the best available indication of the size of the overall problem.

public against private spending.[1] 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. The Committee feels there is much evidence that we are in or near this danger zone.

Yet, the pressure for larger and larger government spending continues unabated. Plausible - often persuasive - new claims on public funds are constantly being made. At the same time, resources are limited. How are we to strike a balance between private and public use of available resources?

In the Committee's opinion, the best insurance that we will achieve such a balance is a budget policy which puts taxes to work as a check on government spending, by requiring that taxes be increased if expenditures are increased. This requirement is a basic element in the "stabilizing budget policy" recommended by the Committee in 1947 in its policy statement, Taxes and the Budget. Each new expenditure would 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?

In answering this question, we must count as costs not only the direct reduction of private income through higher taxes but the adverse incentive effects as well. Are taxes already so high that new

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1/ Adding state and local expenditures to Federal expenditures, the Council of Economic Advisers in its latest Annual Economic Review concludes: "....it is expected that total government cash payments will rise to perhaps 61 billion dollars for the calendar year 1949, more than 9 billion dollars higher than in 1948." In other words, total public spending is running in excess of one-fourth of national income.

tax burdens will unduly hamper our economy in providing jobs and promoting economic progress? Will the higher marginal tax rates undermine the incentives to work, save, and invest which are the main-springs of increased production and innovation?

Apart from these predominantly economic considerations, the choice between public and private use of resources must be made with this very basic question in view: are government expenditures and the activities they finance beginning to impinge on the area of freedom we hold essential to our democratic and individualistic way of life? Is government beginning to do things and make choices for the citizens for which he should be responsible himself?

It is, of course, clear that we will have to accept very large Federal budgets until true peace is achieved. The move for economy and savings in government must proceed in harmony with, rather than at the expense of, our essential programs of military security and economic welfare. To the extent that the funds devoted to national defense, foreign aid, and basic economic and social services are efficiently spent and carry out the agreed goals of our national policy, they take priority over the private expenditures they replace.

In the Committee's opinion, this general principle in no sense rules out reductions in projected government expenditures. On the contrary, it underscores the urgent need to control expenditures more effectively and to search for savings more vigorously, both through greater economy and through postponement or curtailment of low-priority programs.

How To Make Control Of Expenditures Effective

Effective control of Government expenditures requires the combined action of the Executive, the Congress and the public. The Executive is largely responsible for the initiation and preliminary screening of expenditure proposals and for the administration of programs authorized by the Congress. As we point out in another section of this Policy Statement, there is a great need and opportunity for more efficient and economical administration of government functions. Moreover, despite improvements in recent years, executive budget procedures still stand in need of reform.

Congress is responsible for weighing the numerous demands for government expenditure against each other and against the general interest in lower taxes. It must also maintain constant scrutiny and exert constant pressure for efficiency and economy. No individual or private agency can do Congress' job for it. But Congress cannot serve its function without the advice and support of an informed public.

Congress is not now adequately organized to do its part of the job. Its machinery is not conducive to a balancing of all of the items on both sides of the budget against each other. Its present organization leads Congress inevitably to make particular decisions without relation to the whole picture of which they are parts. At the same time Congress is not staffed to exercise a continuing constructive influence on the day-by-day operation of the government. Its moves for economy tend to be sporadic and spotty.

The Legislative Reorganization Act of 1946 attempted to establish the machinery for an over-all approach toward the budget and a realistic weighing of taxes against expenditures. The essential element in the Act was the requirement that a legislative budget be voted by February 15 of each year, upon the recommendation of a joint committee representing the taxing and appropriations committees of both houses. However, the date set was too early; no special staff was provided to do the necessary spade-work; and a conviction that the procedure could accomplish anything seemed to be lacking. Some critics of the Act have suggested that the procedure be abandoned.

In the opinion of the Committee, the solution to the problem lies rather in perfecting and implementing the procedure implicit in the 1946 Act. The action of the present (81st) Congress in setting a later date (May 1) for agreement on the legislative budget, fixing a maximum limit on expenditures, accomplished a necessary first step. A second is to provide an adequate staff for appropriations work on the pattern of the staff of the Joint Committee on Internal Revenue Taxation. The third step would be to consolidate all appropriations bills into a single omnibus bill.

The improvement of machinery alone will not assure wise Congressional action on expenditures. Congress is naturally and properly responsive to the desires of the citizens in budget matters.

How can we make citizens more effective in resisting unsound spending proposals and in promoting the best possible allocation of funds among the many legitimate functions of government?

To do this requires that budgetary processes lay the necessary facts on the table in a form that states clearly the costs against which benefits are to be weighed and also makes it possible to appraise the economic impact of government budgets. Changes in budgetary practice designed to meet this need are examined in this section.

The improvements in budgetary procedure and presentation which must be made to facilitate more informed public participation in the control of Government expenditures can be grouped as follows: (1) use of the cash-consolidated budget; (2) clarifying policy issues by improved classifications; (3) issuing a shorter budget statement; (4) defining public choices..

Use of the Cash-Consolidated Budget

The Committee repeats its earlier recommendation that the cash-consolidated budget be adopted as the basic method of presenting budgetary facts to the public. This does not mean that the administrative budget, which now serves as the basis for public presentation, should be abandoned. It was devised--and still serves--as a necessary instrument of internal control and management. It gives a complete picture of what each agency is doing, without distinguishing between an agency's transactions with the public and its relation with other parts of the government, or between expenditures made in cash and expenditures made by incurring government liabilities.

The cash-consolidated budget, however, is superior in gaining an overall view of government operations and in judging the effects of Federal taxes and expenditures on the economy. Unlike the administrative budget, it shows the total income and outgo of government, inclusive of trust account operations.[1] Moreover, it is based on actual cash inpayments and outpayments,

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1/ For example, it includes in the proposed expenditures for fiscal 1950 the $2.0 billion National Service Life Insurance dividend which is not shown in the administrative budget. It also adds in the $2.2 billion of outpayments from the Old Age and Survivors' Insurance trust fund and the $4.1 billion of receipts of this trust fund from payroll taxes.

excluding transactions in government liabilities.[1] Thus, it shows the amounts being added to and subtracted from private incomes and holdings of public debt. The cash-consolidated budget makes total cash receipts and total cash expenditures the hub around which the decision-making process revolves.

The Committee also recommends that the Budget Message state each year what projection of national income is used in estimating receipts and expenditures. Failure to include this figure has caused much needless confusion in the past concerning the soundness of revenue and expenditure estimates. The recent announcement by the Secretary of the Treasury that the 1950 estimates are based on a $215 billion personal income (corresponding to a national income of about $230 billion) is a step in the right direction.

Clarifying Issues by Improved Classifications

Effective budget presentation in a democracy should help the public to understand the choices that have to be made. Sensible choices can be made only in terms of government functions, not in terms of particular organization units. Further, public debate should center on broad programs such as agricultural subsidies, national defense, international reconstruction and relief and the like. It follows, therefore,

1/ For 1950, for example, the administrative budget shows an expenditure of $5.5 billion for interest. The actual cash outlay for interest included in the cash-consolidated budget totals only $4.0 billion, because this budget excludes the accrual of interest on savings bonds and the payment of interest on government bonds owned by government trust funds and corporations.

that budget presentation should (a) focus attention on functions by bringing together related activities and (b) summarize these activities in categories which aid citizens in making policy decisions.

The new functional classification adopted in 1947 is a commendable first step toward a "performance budget." It groups expenditures into such categories as national defense, international affairs and finance, and veterans' services and benefits. To complete the process of giving Congress and the public a clear understanding of what spending is proposed for each activity of government, the broad functions now used should be split up into activities and the activities into projects. This is what the Commission on the Organization of the Executive Branch of the Government (The Hoover Commission) calls a "performance budget."[1] The appropriations structure would likewise need to be altered with the objectives of such a performance budget in mind.

Issuing A Shorter Budget Statement

Present budget documents are much too long and complex to be effective in getting budgetary facts and issues across to the public. The budget for 1950 is a six-pound document running to 1625 pages. Even the more widely available extract, Budget Message of the President and Summary Budget Statements, is over 300 pages long. A condensed statement of perhaps 50 pages is badly needed. It should contain key

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1/ The Commission's Recommendation No. I on budgeting is as follows: "We recommend that the whole budgetary concept of the Federal government should be refashioned by the adoption of a budget based upon functions, activities, and projects: this we designate as a 'performance budget'."

excerpts from the President's budget message, together with selected tables and charts. Skillful preparation and wide distribution of such a pamphlet would make a real contribution to public understanding of fiscal affairs.

Defining Public Choices

Putting the above-recommended changes into effect would help greatly in judging the economic effects of government's activities and would provide a clearer picture of the costs of government in a particular year. But that year must also be put in its proper perspective if the citizen is to make intelligent decisions on government spending and taxing.

The public and Congress are told in January what the government proposes to spend in the year starting just six months later. But they are not told how much of this amount is more or less "untouchable" because of past commitments. Nor can they tell what their choices will cost them not merely in the year just ahead but over the life span of the proposed programs.

The public must be given every opportunity to participate in the broad policy determinations of the Federal program. They naturally wish to address their attention to the area where choices are still open. More effective exercise of democratic control of government and its expenditures would be possible if the budget would focus attention more sharply upon the new decisions which have to be made.

The Committee recommends an addition to the customary budget presentation to give us a longer perspective on the choices before us:

<u>For new programs, especially long-run undertakings, the budget should spell out not merely the costs in the coming year, but insofar as possible the expected total and pattern of future costs</u>. <u>For long-run undertakings already in progress, the budget should facilitate continuous review and appraisal by showing their exact status in terms of past, present, and future expenditures</u>.

The first part of this recommendation centers directly on the expanding frontiers of government. It is the decisions on new programs, on proposed legislation, on today's commitments for future spending that determine in large part whether, and in what direction, government is to expand.

New proposals should be the occasion for reappraisal of existing programs. Their costs should be assessed in relation to their relative benefits. Only if new proposals are fully explained can such a comparison be accomplished and the total program be adjusted to meet the public's preferences.

Yet, as matters now stand, choices which may be decisive for the whole program have to be made largely in terms of the cost for the first year. The statement of immediate costs should be supplemented by as complete a schedule of future costs as present information allows. If no satisfactory schedule can be given for a proposal, this alone may indicate that it is not yet ripe for submission and public decision. Such a requirement would facilitate control of government expenditures where they originate and while they are still controllable.

Exclusive attention to new proposals will not, however, accomplish the requisite public control over the program as a whole. Long-run undertakings must be subjected to continuous review to make sure that their development is consistent with the public's wishes.

Here again, the budget presentation should make clear the range of choices. Under present procedure, commitments grow out of authorizations which are not made by appropriations committees and which may involve little or no appropriation of money at the outset. The public works field provides the prime example of the dimly understood commitment which tends to grow, snowball fashion, as the years go by. The original estimate of the cost to complete the project may be based on limited data. Later revisions and expansions of the program may be cursorily approved merely as amendments to a decision already made. As the preliminary explorations are succeeded by engineering surveys and construction plans, the public should be informed of revised cost estimates and the Congress should exercise continuous surveillance of the broad outlines of the undertaking to ensure that new decisions are consciously made.1/

1/ Quite apart from the merit of the project as such, the Missouri Basin development is a good example of a long-range undertaking which has tended to grow piecemeal without adequate Congressional or public control of the project as a whole. When first approved by Congress in 1944, the estimated cost of completing the entire project was $1,300 million. An initial authorization of $400 million was made at that time to get work started. Today, five years later, it is estimated that total federal costs for the project and related activities may run to $6,000 million over a six year period. Part of the increase in estimated costs is due to price rises since the first estimates were made. Most of it, however, appears to be a result of more detailed estimating and additions to the original plan. By June 30, 1949, construction will have begun, according to present plans, on work now estimated to cost $1,400 million to complete. Some $300 million has been appropriated for this work. These parts of the total project, at least, appear to have largely passed beyond the financial control of the public and Congress into the engineering control of the Bureau of Reclamation and the Corps of Engineers.

Even when the total size of a project is beyond effective control because of Congressional authorizations, the rate of expenditure may still be subject to control. The impact of the Missouri Basin development on the economy, for example, will obviously be quite different if it is rushed to completion in five years than if it is spread over fifty years. Here, the key to control seems to be the new units or segments of projects started. This stage requires approval by Congress through actual contract authorizations and appropriations. An annual summary in the budget document showing the status, proposed total outlay, and projected timing of the expenditure of all authorized long-run construction undertakings would contribute measurably to farsighted control of Federal expenditures.

The Federal civil public works program and proposals shown in the current budget document are summarized below. Information on the timing of these expenditures beyond 1950 is not available.

	Estimated Expenditures in fiscal 1950	Estimated Expenditures after fiscal 1950
Projects begun before 1950	$2.7 billion	$6.1 billion
Projects proposed to start in 1950	.3	1.9
Projects authorized to start after 1950	-	12.8
Agency proposals not yet authorized	-	14.0
Total	3.0	34.8

Public works is only one of several fields in which activities are in fact authorized for many years in advance, thus making it difficult to exercise suitable public policy control by conventional annual budgeting. The 1950 Budget offers examples from other fields. Universal military training is estimated to cost $600 million for fiscal 1950, but the Budget Message mentions a figure of $2 billion for the next year.

Evidence is lacking that this figure is founded on careful analysis. The social insurance proposals offer the paradox of presenting long-run cost information, but very little one can lay one's hands on for the years immediately following 1950. Insofar as possible, cost data should be set forth for the entire period involved in current 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. Inefficiency that might not have been heavily damaging in a 5 billion dollar government becomes intolerable at nine times that figure. It wastes resources that might otherwise have been put to good use privately or devoted to expansion of needed government services. Inefficiency begins to be felt in higher taxes than seem justified. Or alternatively, it results in the vetoing of important new programs for which there might have been room taxwise in the absence of waste.

That waste has become a serious problem in government is substantiated by the findings of the Hoover Commission. The Commission's reports show that more efficient organization and procedures can, in the course of time, save hundreds of millions - perhaps even billions - of dollars.

The existence of waste in government is hardly surprising. Government is the nation's biggest and most complex business. Its officials are spending not their own but other people's money. And it is not compelled to live within its income.

The person who is spending someone else's dollars - whether on a business expense account or on a government job - will usually be less strict in his standards than if he were spending his own. When the consequences of spending unwisely or too much are borne by someone other than the spender, cost-consciousness usually lessens. As government spends a larger and larger proportion of our income, this problem becomes increasingly serious.

At the same time, bigness and complexity make it difficult to control and gain accountability in government spending. In a small business or a small unit of local government, identity or close contact between the spender and the one who bears the consequences provides the needed incentive. But as that contact is lost either in the large corporation or the remote Federal government, the incentive becomes weaker and wasteful spending tends to grow.

In private units tendencies toward waste are checked by the painful if not disastrous consequences of living beyond one's income. But government, by its very nature, lives by different standards. Unlike private units, which must tailor spending to receipts, government units first decide upon their expenditures and then raise the funds needed to finance them. Only if we adopt a budgetary policy which makes higher taxes a consequence of higher expenditures can we enlist the aid of the revenue test in tightening the expenditure standards of government. If this general test could be supplemented by a personalized incentive scheme - one which would relate promotions and higher salaries directly to <u>superior performance at least cost</u> - we could make real inroads on the problem of cost consciousness.

For the most part, inefficiency in government takes intangible forms - bad organization, deficient procedures, and the lack of incentives to do things the least expensive way. To the extent that waste consists of multiplication of agencies doing uncoordinated and overlapping things, it will yield only slowly to reform. But the more tangible forms of duplication in physical facilities are a promising field for economy, even in the fairly short run. Duplicate inventories of materials throughout government, for example, can be liquidated by centralizing both purchasing and supplies. As the Armed Services become more truly unified, duplication of air fields, training bases, and service establishments can be avoided or eliminated.

The President's recent attempt to cut back the veterans' hospital program illustrates, however, the resistance that frequently springs up when an attempt is made to economize. Veterans' groups immediately protested the cutback. Local groups, in the geographic areas affected, quickly joined the hue and cry. As a result it appears probable that most of the cut will be restored.

Resistance of a different kind is encountered in trying to consolidate overlapping agencies, modernize obsolete procedures, and tighten up on the use of supplies. In part, the economizing process is slowed down by the resistance of government employees who may lose their jobs or their power. But the usual vagueness of the issues and the general inertia of such a huge organization as the Federal government are more important obstacles.

The Hoover Commission has made an outstanding contribution in defining the issues, stimulating public awareness, and offering specific suggestions for reform. The most important of these reforms relate to such matters as the elimination of duplication, consolidation of units, improving lines of responsibility and strengthening procedures for budgeting and expense control.

Perhaps the most impressive case for economy is made by the Commission's report on National Security. Judging by the report, the Armed Services provide examples of virtually every type of inefficiency and waste that exists in government. But the studies of the Commission have suggested improvements and savings in many other areas as well. Only a few examples need be cited here. In the Veterans' Administration, reorganization and procedural improvement can, it is held, accomplish a 10% increase in the average output of each employee, with consequent savings of as much as $75 million a year. The Task Force report on the Post Office states that "total annual expenditures in post offices having receipts of over $1 million per year can be reduced by at least $90 million if operations are placed under better management control," though at least $8 million anually will have to be invested to achieve this economy.

<u>The Research and Policy Committee commends the report of the Hoover Commission for early consideration and appropriate action. Giving the President appropriate powers, with safeguards deemed necessary, to consolidate and reorganize the executive arm of government would be a hopeful start.</u>

Reliance for achieving economy must also be placed on exposures of waste, duplication, and inefficiency. Vigilance on the part of individual citizens, civic groups, and news organs in unearthing and publicizing examples of wasteful spending has a wholesome effect on the responsible officials.

The foregoing comments indicate that economy and efficiency in government can not be achieved either easily or quickly. But they show just as clearly that economy is not a mere will-o'-the-wisp. Given the stimulus to achieve economy - and the burdens of a $45 billion level of federal spending should certainly provide that stimulus - it is clear that vigorous efforts in that direction can be very rewarding.

Controlling New Items Of Expenditure

Apart from doing the existing jobs of government at lower cost, can we effect significant savings by postponing or curtailing low-priority government programs?

The search for savings will be most fruitful in those areas where we are currently being asked to undertake new or expanded commitments. We should focus our attention chiefly on new-item control rather than tilting at the windmill of commitments to which we are legally or morally bound by past actions.

Table IV shows the $8,076 million of expenditures in the President's budget for 1950 which depend on proposed legislation.[1] The largest item in the Table is the $4,655 million for the European Recovery Program and other foreign aid. Although no legal commitment exists for these projects, failure to provide funds would be interpreted both at

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1/ Excluding expenditures for military aid to the North Atlantic countries.

home and abroad as breaking a definite <u>moral</u> commitment. Leaving out this item, we find $3,421 million of proposed expenditure which depends on new legislation, to which we are not yet committed. In this amount and in the expansion of programs already authorized by statute but for which appropriations are still required lie the best opportunities for free choices affecting the expenditure side of the budget. It should be noted that $1,665 million of the expenditures under new legislation is for social insurance expansion to be financed by payroll tax increases.

In the field of public works, the Committee thoroughly agrees with the following suggestions made by the President in his budget message: "Present high costs of construction and large competitive demands from various sectors of the economy make it necessary to undertake new river basin projects only where urgency is evident." Further: "Because of the great increase in the estimated cost of the Missouri Basin development, the present plan should be reexamined to determine needed changes."

Parallel with these suggestions, the Committee would raise two questions. First, is it good public business to spend as much as $3 billion of public money on construction in 1950 as recommended by the President? As long as costs are still high and demands for non-Federal construction of some types remain insistent, Federal construction should be slowed down. Slowing down now would make it easier to speed up later if economic activity should decline sufficiently to call for an increase of public works expenditure. Some will protest that a slow-down now would be uneconomical because it would interrupt work already under way. To this protest it may be answered that the large projects comprising the bulk of the $3 billion construction item break down into

TABLE IV

Costs of Proposed New Legislation in Fiscal Year 1950[a]

(in Millions)

		Cost in Fiscal 1950
International Affairs and Finance		$4655
Economic Cooperation Administration	4300	
Other Foreign Aid (Greece, Turkey, China, Korea)	355	
Social Insurance		1665
Old Age and Survivors Insurance)		
Total and permanent disability)		
Temporary disability)	1500	
Unemployment	150	
Medical Care	15	
Other		1756
National defense	385	
Military construction, special programs, military pay adjustment, etc. (separate amounts not specified)		
Universal military training	600	
Public assistance	65	
Slum clearance, low-rent housing, farm housing and research	160	
Special assistance for rental and cooperative housing	50	
Federal aid to education	290	
Grain storage facilities	25	
International wheat agreement	56	
St. Lawrence seaway and power project	8	
Anti-inflation program, rent control, and export control	42	
Surplus property disposal	21	
All other	54	
Total		$8,076

[a]Based on 1950 Budget Message: excludes military aid to North Atlantic countries.

a series of individual works, especially in flood control and reclamation. The Committee is convinced that a project-by-project engineering analysis could squeeze out a sizeable sum for 1950 without impairing performance.

The second question regarding public works is this: are decisions on the proposed $295 million for new projects in 1950 being made with full regard to the total costs involved? We have in mind the total of $2.2 billion needed to complete these projects. This proposed expenditure should be evaluated not simply in terms of the benefits yielded to the particular area where the projects are located. It should also take into account for example, the housing or education projects (either public or private) which may have to be foregone to support the proposed public works. Particular attention should be given the projects which are at or approaching the stage of proposed authorizations, such as the St. Lawrence Seaway and the Columbia River basin development. It is at this stage that control can be most effective.

There are, of course, other areas in which diligent probing will reveal opportunities for savings. Such savings can and should be made without sacrificing essential elements 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 proposals in the President's January Budget message, excluding the recommended general tax increase, added up to a cash surplus of $1.5 billion to be achieved if total personal income remained at about the $215 billion level of October-December 1948. The President stated in January that he would send up at a later date a proposal for expenditure for military aid to the North Atlantic countries. Inclusion of an unofficial estimate of $600 million for the purpose would reduce the cash surplus to $900 million.

The President recommended an increase of tax rates to yield $4 billion in a full year. He suggested that "the principal source . . . should be additional taxes upon corporate profits", supplemented by higher taxes on estates and gifts and possibly by an "increase of rates of individual income taxes in the upper and middle brackets". Because of the normal lag of tax collections, the yield of the additional taxes in fiscal 1950 would be considerably less than $4 billion, perhaps around $2.5 billion.

Thus the President's budget recommendations would lead to a cash surplus of a little over $3 billion at a personal income level of $215 billion, the surplus to be achieved by means of a tax increase, mainly on corporate profits, to offset expenditure increases.

This policy, as explained by the President reflects the belief that a surplus is necessary to combat inflation, that reduction of the debt is desirable in conditions of high employment, and that a tax increase is the best means to achieve 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 the nature of budget policy in general. Should we seek to balance the budget each year, or should the size of the surplus vary with economic condtions? Should policy each year be guided by a current economic forecast or should we rely on more objective standards? We must first arrive at general answers to such questions before we can agree upon, or even discuss usefully, year-by-year budget policy. Our budget is too big, the short-run pressures and uncertainties too great, to allow us to improvise budget policy as we go along.

In 1947 the Committee developed the basic principles of a workable budget policy that would contribute to economic stability, government economy and debt reduction. The key to the program is this:

"Set tax rates to balance the budget and provide a surplus for debt retirement at agreed high levels of employment and national income. Having set these rates, leave them alone unless there is some major change in national policy or condition of national life."

The meaning of this recommendation and the reasoning that lies behind it were explained in detail in our Policy Statement "Taxes and the Budget". We shall spell out the main implications here only in brief and general terms.

If the recommended policy were followed, the size of the actual surplus would vary with the size of the actual national income. The lower employment and national income are, the smaller will be the yield of the existing tax rates and the higher the amount of payments for unemployment compensation. There would be an automatic rise or fall of the surplus that would tend to check any rise or fall of national income and so to help maintain stability. Thus, suppose we arrange our budget expenditure programs and tax rates so that there would be a cash surplus of $3 billion at a national income about the current level of $230 billion. If the national income falls to, say, $215 billion or $200 billion, tax revenues will decline and unemployment compensation payments rise. The budget will take less income away from private individuals and businesses and pay more to them. This will serve to cushion the decline of national income. In present conditions, when a large part of Federal revenue comes from corporate profits taxes and business break-even points are unusually high, a decline of national income would reduce tax collections especially sharply and could easily result in a substantial deficit.

In theory it would be possible to go beyond this automatic effect of economic fluctuations upon the budget and the corresponding effects of the budget in reducing fluctuations. That is, in theory it would be possible to cut taxes in depression and raise taxes in inflation and so make a greater contribution to stability. But such a policy can only be effective if the timing is right. It will contribute to instability, not to stability, if the tax rate changes come too soon or too late. The well-known unreliability of economic forecasting, plus the difficulties of getting quick action on tax rates, lead us to conclude that such a program would be unlikely in fact to contribute to stability. In conditions of extreme depression or inflation it may be desirable to go beyond the automatic operation of the stable tax-rate program and reduce or increase tax rates. But in more moderate fluctuations the maximum contribution of the budget to stability will, we believe, be obtained from the general policy we have recommended.

Adherence to the stabilizing budget principle would promote economy in government. To maintain taxes at the recommended level--enough to yield a reasonable surplus at agreed high levels of national income--would require that an increase in government expenditure programs be matched by a corresponding increase in tax rates. This requirement would not, of course, serve as a substitute for the constant sifting and winnowing which is necessary to assure the maximum return per dollar of government expenditure. Moreover, the Committee recognizes that it may be undesirable to raise tax rates to meet a large and clearly temporary expenditure increase. But if the basic principle is followed the general aversion to higher taxes would be a valuable check on unnecessary expansion of the level of government expenditure.

The Committee's proposal would establish the reduction of the Federal debt as a recognized item on our fiscal agenda. Its policy would neither accept a constantly mounting debt as inevitable nor put us in the straitjacket of compulsory debt retirement each year. Rather, debt would be retired at and above satisfactory levels of national income and employment, i.e., when the economy could afford it. If, on the average, we achieve our goal of maintaining high employment, the debt would be gradually reduced.

The Committee does not rely on budget or fiscal policy alone to achieve economic stability. As the Committee pointed out in Monetary and Fiscal Policy for Greater Economic Stability, economic stability requires coordinated action on many fronts. Fiscal policy must be coupled with monetary and debt management policy. Monetary-fiscal policy, in turn, needs to be buttressed by appropriate wage-price and agricultural policies and by greater contributions to economic stability than have hitherto been forthcoming from policies prevailing in construction, foreign trade and international finance, banking and insurance, and in the management of individual businesses.

We wish particularly to emphasize that the effectiveness of budgetary policy as a force for economic stability depends on how well the debt is managed. A surplus of cash receipts over expenditures will be more deflationary if it is used to build up the Treasury's cash balance or to pay off government bonds held by the Federal Reserve Banks than if it is devoted to repayment of savings bonds. Similarly, a deficit financed by borrowing from commercial banks will be more expansionary than one financed by borrowing from individuals. Changes in composition of the debt can have significant economic effects. For example, during an inflation it would be appropriate to intensify the program for selling savings bonds.

The principle recommended here is that the relation between expenditures and tax rates be so adjusted as to yield a moderate surplus at agreed high levels of employment and national income. Application of the principle requires some definition of the size of the surplus and the high level national income.

In 1947 the Committee suggested that tax rates should be set at a level that would yield a $3 billion cash surplus under conditions of high employment.

The Committee recognizes that it is impossible to determine now for the indefinite future how large a cash surplus will on the average be consistent with the maintenance of stability at high employment. We believe that in the prospective condition of the American economy an annual cash surplus of $3 billion will not ordinarily be too large for the achievement of prosperity, especially if we adopt policies with respect to the tax structure, money and the debt that stimulate private investment. If this belief should in the future prove clearly erroneous, if the $3 billion annual withdrawal from private incomes and liquid assets should prove an excessive drag upon the economy, it will be desirable to reduce the figure.

The revenue estimates included in the President's January budget message were based on the assumption that total personal income would continue at about $215 billion a year. This is approximately the level that prevailed in the second half of 1948, somewhat below the peak reached at the end of 1948, and probably close to the current (Spring 1949) level. It is a level of income at which we have had high employment with an average level of prices near the present level. The personal income figure of $215 billion corresponds to a national income figure of $230 billion. Conceivably with a sufficient decline in prices high employment could be maintained at a level of national income lower than $230 billion. However, any considerable fall of national income carries with it the risk of unemployment. There is no strong reason for setting tax rates high enough to yield a cash surplus at a national income figure below that used in the preparation of the budget estimates. Therefore we consider it a reasonable interpretation of our general principle at the present time that the budget should be set to yield a $3 billion surplus at about $230 billion national income. It should be clear that this does not imply a forecast that the national income will actually be $230 billion in 1949-1950. If the national income is lower the surplus would be, appropriately, lower.

Need for Reform of the Tax Structure

Before turning to the application of our general principle to the question of the total level of taxes in 1949-1950 we wish to emphasize that tax policy is not merely a question of totals. It is also a question of the character of the taxes that yield the total. Our present tax system has seriously detrimental effects upon the vitality and efficiency of our productive system. We have described these effects and made suggestions for remedying them in an earlier policy statement.[1/] We shall not repeat them here. Major changes in the tax structure have often in the past been the by-products of major changes in the level of taxes. However, this need not be the case. Important structural improvements can be achieved without any change in the over-all level of taxes. In fact, the prospect that we may have to live for some while with the present over-all level of taxes makes it especially urgent that we proceed with structural improvements. The present heavy burden of taxes aggravates the structural defects of the existing system.

1/ Taxes and the Budget, a statement on national policy by the Research and Policy Committee of the CED, November, 1947, pp. 35-63.

Payroll Taxes for Social Security

The President's proposals include $2.2 billion of payroll tax increase to finance broader social security benefits. These benefits, in turn, are estimated by the Budget to account for $1.6 billion of expenditures.

Without passing on the merits of the expansion of social insurance recommended by the President,[1/] the Committee would agree that higher payroll taxes are the appropriate means of financing it under present circumstances. Such taxes are appropriate here because (1) direct and recognizable benefits are being given in exchange; (2) they generate the feeling that benefits are received as a matter of right rather than charity. The Committee is mindful, however, of the broad interest of society in the welfare of the aged and the consequent justification of a measure of financial support from the general revenue. Also, as benefits are increased and coverage is widened, making social insurance more truly a general government function, we will approach the point where, as the Committee suggested in Taxes and the Budget, it becomes "appropriate to reconsider the entire financial status of the system."

1/ The Committee has earlier recommended one large single element in the program, namely, the broadening of old-age and survivors' insurance. We have also suggested broader coverage of unemployment compensation and liberalization of benefits. See Taxes and the Budget, pp. 62-3.

Budget Policy for Fiscal 1950

The Choices Before the Country

The expenditure proposals now before the 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 the increased expenditures plus a moderate cash surplus at high employment.
3. To allow expenditures to rise and not to increase tax rates - so that there would be at most a very small surplus and possibly a deficit even at high employment.

The Need for Reduction of Expenditures

In the present situation the only acceptable course to follow is to reduce expenditures.

The Committee recognizes the inescapable character of some of the largest Government expenditure programs. It appreciates the grave risks that must be weighed by those who have to decide the amounts to be spent for national defense or foreign aid. These decisions cannot be governed entirely, or even primarily, by fiscal considerations.

But the existence of a large, hard core of expenditures in the budget does not mean that the budget as a whole is untouchable. On the contrary, the extraordinary demands that the current international situation make upon the Federal budget compel us to practice economy everywhere with more than ordinary rigor. The question is not whether we can find expenditure programs in the budget that are useless. The important questions are (1) can the most essential programs be trimmed and carried on more economically and (2) can the less essential programs be deferred, curtailed, or eliminated, in view of the great demands being made upon the budget.

Expert investigation has shown that large amounts can be saved by reorganization and more efficient operation of the government. In this connection we have referred in Section III to the findings of the Hoover Commission. It is critically imperative that these potential savings be realized quickly and fully. We have also pointed out that many of the expenditure programs, new and old, submitted to Congress represent decisions to be made, not necessities to be accepted. There is, for example, a choice in the rate at which we push ahead expanding public works programs. There are choices in the rate at which we introduce other new programs and carry on old ones.

Whatever may be said for the "need" for certain projects that will increase expenditure, the need must surely be weighed against the cost. Under present conditions the cost is raising taxes or foregoing debt reduction. Either cost is too high.

The Cost of Higher Taxes

The burden of taxes in the United States is heavy. Federal taxes alone take about one-fifth of the national income. Federal, State and local taxes together take about one-fourth of the national income. This heavy tax burden is a serious threat to the growth and efficiency of the American economy. The heavy tax burden reduces the supply of capital available for investment in expansion and improvement of productive capacity. It represses the incentives to use funds in risky, forward looking enterprises, since the Government will take a large share of the rewards if the enterprise is successful but will only share in any losses to a much smaller extent, if at all. In some cases the high share that the Government takes of additional earnings weakens the drive to personal effort. A continuing, large flow of capital into additional productive capacity, a continuing search for new and better ways of using funds and personal talent are essential to the future strength of this country and to the wellbeing of the whole population, indeed of the whole democratic world. Adding to the existing tax burden would further weaken these basic supports and stimulators of our economy.

A tax increase would be particularly risky at the present time. There has already been a substantial softening from the boom economic conditions of a year ago. Employment and production are still high, as this is written. We are not now in a depression. But no one can tell when the decline may stop or how far it may go. We should not, if we can avoid it, add the real and psychological impact of a tax increase to the forces making for the current readjustment.

The Cost of Not Providing for Debt Reduction

The principle that if expenditure levels are increased taxes should be increased sufficiently to provide for debt reduction during periods of high employment we regard as essential to the long-run stability of the American economy. Failure now to hold expenditures moderately below the revenues that would be yielded by our tax system under conditions of high employment would be a dangerous departure from that principle.

This principle is a necessary safeguard against excessive increase of government expenditure. It should be abandoned only in the most extraordinary circumstances. It is not - and should not be - an insuperable barrier to any increase of expenditure. But it does impose upon the government and the public the discipline of counting the costs of their expenditure decisions. Thus it tends to confine expenditures to those of which the value is clear after the costs as well as benefits have been weighed. There is no practical substitute for the requirement that taxes be raised when expenditure programs are increased, as a means of bringing the costs as well as the gains into the balance of expenditure decisions. Without this balancing we would be exposed to the danger of continuous expansion of the scope of government and uneconomical diversion of resources from private to government use.

The principle that the debt should be reduced in periods of high employment is also a necessary safeguard against a long-run inflationary trend. The Committee has recognized that the importance of combatting economic instability makes it undesirable to attempt to reduce the debt during a period of depression. The same consideration points to the necessity of providing for a surplus in prosperous times. If we run deficits in depression and yet enforce no check against deficits in prosperity we shall get not stability but economic fluctuations around an inflationary trend.

We have indicated that to increase taxes would be especially risky now in view of the present business uncertainty. To allow expenditures to rise so far that existing taxes would not yield a surplus <u>at high employment</u> would add to the existing uncertainty. It would suggest an inability to manage our fiscal affairs.

The Committee's conclusion is: The costs of not curtailing expenditures are too high to pay, in terms of their effects upon the stability and efficiency of the American economy. Congress and the President have the responsibility for weighing these costs. They cannot safely accept the position that because expenditure reduction is difficult the only choice lies between raising taxes and foregoing debt reduction. The course of least resistance may be to approve expenditure increases and not to raise taxes. However, 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.* In our judgment, however, a tax increase is not necessary because, barring major unforeseen international developments, expenditures for the coming fiscal year can be reduced.

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* Footnote by Beardsley Ruml: It would not be inconsistent with the position taken by the Committee in its policy statement, Taxes and the Budget, if non-recurring expenditures were financed by the sale of Savings Bonds to the public. Such sales would be in some measure an alternative to taxation.

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