

in expenditures for domestic purposes, then what we find is that we face the problem of the reemergence of a serious fiscal drag on the economy which will not have been corrected by the tax actions taken so far. If you suppose that we reach approximate balance by 1966, and this allows for an excise tax cut next year of something in the neighborhood of \$1.5 to \$2 billion, then what you face is a situation in which our economy, if it continues to expand at a rate of approximately 4 to 5 percent per year, with our existing tax structure will produce some \$6 billion in additional revenue each year. This means, then, a rising budget surplus which will be added to at the rate of \$3 to \$5 billion a year.

It would take an economy that was operating at full blast in the private sector to overcome this fiscal drag of the budget and still maintain adequate levels of growth, output, and employment. So that it seems to me that there is still a great deal that needs to be done in tax policy if we are to sustain a high rate of growth, if we are to achieve and maintain full employment with price stability, and avoid serious recessions.

The prospects are that the action taken in the 1965 session of the Congress will be restricted to excise tax reduction. If you looked at this morning's "Washington Post" you got another bit of information on this. President Johnson has been committed to excise tax reduction for some months. The Treasury has promised an excise tax reduction for some years. And I am sure Secretary Dillon does not relish going before the Ways and Means Committee sometime this spring and urging that the temporary Korean excise taxes be extended for, I think, now, the twelfth year in a row. Clearly, some action here is required. Action here is required, I think, not only because the budget may be approaching balance too soon in terms of the economy's ability to sustain its momentum, but also because the excise tax structure is badly in need of reform as a consequence of the fact that most of it constitutes a set of relics from past emergencies, misguided insofar as the emergencies arose during the depression; perhaps not insofar as they arose in World Wars I and II.

I should go further back than that. If you trace the legislative history of our excise tax structure you find that the bulk of it is a product of measures taken to meet emergency war demands which go back at least to the Civil War, if not the War of 1812. For example, the retail excise taxes were discussed in this morning's