as they can be accomplished within a sound budget policy. Reductions in tax rates would give relief to taxpayers and would also release funds for the activity and investment necessary for sustained economic growth through private initiative. However, the reduction of tax rates must give way under present circumstances to the cost of meeting our urgent national responsibilities.

The present estimates of budget receipts for 1958 are based on the assumption that the Nation will continue to have a high level of business activity with increasing national income, and that the present tax rates will be continued. These are the estimates we can make at this time, but, since they relate to a period of 6 to 18 months away, significant changes may take place before the fiscal year 1958 is ended.

Receipts from and payments to the public. — The restraint on inflationary pressures which will be exerted by the budget surplus in the fiscal year 1958 will be reinforced by net accumulations in the trust funds . . .

. . . the receipts from the public are estimates to exceed payments to the public by 3 billion dollars in the fiscal year 1958.

Budget Message for the Fiscal Year 1959 (January 1958)

This budget reflects . . . those principles of governmental and fiscal soundness that have always guided this administration — economy in expenditures, efficiency in operations, promotion of growth and stability in a free-enterprise economy, . . . adequate to cover expenditures and permit debt reduction during periods of high business activity . . .

To meet these responsibilities . . . the budget for 1959 contains recommendations to provide:

[Various shifts in defense spending]

(4) Curtailments, revisions, or eliminations of certain present civil programs, and deferments of previously recommended new programs, in order to restrain nonmilitary spending in 1959 and to provide the basis for budgetary savings of several billion dollars annually within a few years;

(5) Continuation of present tax rates to help achieve a balanced budget in 1959.

There are strong grounds to support my confidence that the expansion of our economy will soon be resumed, bringing higher levels of receipts with present tax rates. The acceleration of defense efforts already under way, the increasing pace of activity in a number of programs involving State and local as well as Federal expenditures, the rapid pace of technological advance, . . .

the expanding needs and desires of our growing population, and Government policies designed to facilitate the resumption of growth are among the major factors that justify this confidence. While there are many uncertainties in forecasting results 18 months in advance, our best estimate at this time of budget receipts for 1959 is $74.4 billion. This would produce a balanced budget with a surplus of $0.5 billion in 1959.

Budget Message for the Fiscal Year 1960 (January 1959)

The situation we face today as a Nation differs significantly from that of a year ago. We are now entering a period of national prosperity and high employment . . .

This budget proposes to increase our military effectiveness, to enhance domestic well-being, . . . to preserve fiscal soundness, and to encourage economic growth and stability, not only in the fiscal year 1960 but in the years beyond. And it clearly shows that these things can be done within our income.

. . . this budget fits the conditions of today because:

1. It is a balanced budget. — My recommendations call for an approximate equality between revenues and expenditures, with a small surplus.

2. It is a responsible budget. — By avoiding a deficit, it will help pre-
vent further increases in the cost of living and the hidden and unfair tax that inflation imposes on personal savings and incomes.

M6 Under our graduated income tax system, with present tax rates, budget receipts should grow even faster than national income, although the rise in receipts certainly will not be uniform from year to year. Also, some tax reforms and downward as adjustments will be essential in future years to help maintain and strengthen the incentives for continued economic growth. With a balance in our finances in 1960, we can look forward to tax reduction in the reasonably foreseeable future. In the long run, taxes should be so arranged that in periods of prosperity some annual provision is made for debt reduction, even though at a modest rate."

M9 ... a very modest surplus of about $0.1 billion is estimated for 1960, compared with a recession-induced deficit of $12.9 billion in the current fiscal year. This estimated balance assumes enactment of recommendations for extending present excises and corporation income taxes scheduled for reduction under existing law.

Budget Message for the Fiscal Year 1961 (January 1960)

M5 I invite the Congress to join with me in a determined effort to achieve a substantial surplus. This will make possible a reduction in the national debt.

M7 During the present fiscal year we have made encouraging progress in achieving sound fiscal policy objectives. The deficit of $12.4 billion in fiscal 1959, which was largely caused by the recession, is expected to be followed by a surplus of $217 million in the current year. To safeguard this small surplus, I am directing all Government departments and agencies to exercise strict controls over the expenditure of Federal funds. Even so, the slender margin of surplus can be attained only if economic growth is not interrupted.

For the fiscal year 1961, I am proposing a budget surplus of $4.2 billion to be applied to debt retirement. In my judgment this is the only sound course. Unless some amounts are applied to the reduction of debt in prosperous periods, we can expect an ever larger public debt if future emergencies or recession again produce deficits.

M7 In times of prosperity, such as we anticipate in the coming year, sound fiscal and economic policy requires a budget surplus to help counteract inflationary pressures, to ease conditions in capital and credit market, and to increase the supply of savings available for productive investment so essential to continued economic growth.

M9 [Recommended removal of interest ceiling on Treasury bonds.]

M10 [The revenue estimate] is consistent with an increase in the gross national product from about $480 billion for calendar 1959 to about $510 billion for calendar 1960.

M11 [Recommended improvements of the tax system—a comprehensive tax revision program.]

Budget Message for the Fiscal Year 1962 (January 1961)*

M5 A budget surplus was achieved in the fiscal year which ended on June 30, 1960. A narrowly balanced budget is anticipated for fiscal year 1961. The recommendations in this budget provide for still another balanced budget, with a surplus, fiscal year 1962. The achievement of balanced budgets this year and in the coming fiscal year will help foster noninflationary prosperity at home and strengthen confidence in the dollar abroad.

Despite the persistence of hardship in some local areas, economic activity continues at a high level. It is imperative for the extension of economic growth at a high and sustainable rate that the budget

*Last message presented by President Eisenhower.
be kept balanced and that we act responsibly in fiscal matters.

[The Budget] . . . provides for:

Continuing present tax rates to maintain the revenue needed for a sound fiscal plan.

A surplus in good times, as provided in this budget, helps make up the deficits which inevitably occur during periods of recession. To ignore these principles is to undermine our strength as a Nation through deficits, unmanageable debt, and the resulting inflation and cheapening of our currency.

M6 An 8-year effort has been made by this administration to stabilize the purchasing power of the dollar. This effort, which was a necessary undertaking in view of the heavy depreciation of the dollar’s purchasing power following World War II, has had a large measure of success, but the problem of maintaining reasonable price stability will require close and continuing attention in the future.

... Despite a leveling out in economic activity during the latter part of the calendar year just ended, the total market value of all goods and services produced in our country in the calendar year 1960 increased by approximately $20 billion over the preceding year ...

M7 Our unsatisfactory balance of international payments provides another compelling reason for pursuing sound financial policies. The relationship between our budgetary actions and the balance of payments needs to be carefully examined to assure a minimum adverse effect. Whether the dollar will continue to enjoy high prestige and confidence in the international financial community will depend on the containment of inflation at home and on the exercise of wise restraint and selectivity in our expenditures abroad.

... Sound fiscal policies and balanced budgets will sustain sound economic growth and, eventually, will make possible a reduced tax burden.

Budget Message for the Fiscal Year 1963 (January 1962)*

7 This budget . . . has been prepared with two main objectives in mind:

*Presented by President Kennedy.
has been insufficient to keep the economy operating at capacity...

8 The checkrein of taxes on private spending and productive incentives must be loosened if our economy is to perform at maximum efficiency. To that end—as I pledged last year—1964 budget incorporates a major program of tax reduction and reform, designed to help speed the economy toward full employment and a higher rate of growth with price stability.

Although, with the passage of time, the economic expansion induced by reduction in tax rates may be expected to yield a higher level of Government revenues than the present tax system affords, the initial effect of the proposed tax program will be a revenue loss. In this setting, I have felt obliged to limit severely my 1964 expenditure proposals. In national defense and space programs—where false economy would seriously jeopardize our national interest or even our national survival—I have proposed expenditure increases. Fixed interest charges on the debt will also rise. But total 1964 expenditures for all other programs in the administrative budget, taken together, have been held to this year’s level, and even reduced somewhat.

10 ... It is now clear that the restraining effects of the tax system on the economy were not adequately recognized.

This issue must be faced squarely. Our present choice is not between a tax cut and a balanced budget. The choice, rather, is between chronic deficits arising out of a slow rate of economic growth, and temporary deficits stemming from a tax program designed to promote fuller use of our resources and more rapid economic growth.

Nevertheless, the prospect of expanding economic activity and rising Federal revenues in the years ahead does not mean that Federal outlays should rise in proportion to such revenue increases. As the tax cut becomes fully effective and the economy climbs toward full employment, a substantial part of the revenue increases must go toward eliminating the transitional deficit. Although it will be necessary to increase certain expenditures, we shall continue, and indeed intensify, our effort to include in our fiscal program only those expenditures which meet strict criteria of fulfilling important national needs.

12 My tax proposals include substantial permanent reductions in individual and corporation income tax rates as well as a number of important structural changes designed to encourage economic growth, increase the equity of our tax system, and simplify our tax laws and administration ...

13 The proposed tax program, when fully effective, would reduce tax liabilities by about $10 billion compared to the present tax system ...

15 The expenditure program which I am proposing in the budget is, I believe, the minimum necessary to meet the essential needs of our complex and growing society in an era of cold war.

In this budget for 1964, most of the increase in expenditures over the current year is also for national security and space programs, carrying forward efforts already begun to strengthen our defenses and to participate more actively in man’s attempt to explore outer space.

The total of administrative budget expenditures for all other programs, combined, has been held slightly below the 1963 level ...

Other moderate expenditure increases being proposed ... include new programs and increases in present programs for education and health, which are investments in our human resources; retraining for those whose present skills are no longer in strong demand; enlargement of employment opportunities for young people who have left school; redevelopment of depressed areas, including the program enacted last year for accelerating public works in these areas; improvement of urban areas through better transportation and more adequate housing, especially for moderate-income families; and encouragement of science and technology important to our civilian industries.

These increases are offset by decreases in other administrative budget expenditures.

Budget Message for the Fiscal Year 1965 (January 1964)*

*First message presented by President Johnson.
In formulating my budget, I have been guided by two principles:

* I have been guided by the principle that spending by the Federal Government, in and of itself, is neither bad nor good . . .

* I have been guided by the principle that an austere budget need not be and should not be a standstill budget . . .

This is, I believe, a budget of economy and progress . . . It cuts the deficit in half, and carries us a giant step toward the achievement of a balanced budget in a full-employment full-prosperity economy.

Moreover, this budget makes provisions for the initiation of a new and major effort to break the vicious circle of chronic poverty, which denies to millions of our fellow citizens a just participation in the benefits of life in our country . . .

The urgent and necessary program increase recommended in this budget will be financed out of the savings made possible by strict economy measures and by an exhaustive screening of existing programs. As a result of the highly successful cost reduction program launched in 1962 by the Secretary of Defense, the 1965 program of the Department of Defense will require over $2 billion less in appropriations than would otherwise be the case . . .

Administrative budget receipts are expected to increase in 1965 to $93.0 billion, $4.6 billion over 1964. This increase, reflecting the expectation of a strongly growing economy spurred by prompt enactment of the tax program, takes into account the estimated revenue losses from the new tax rates.

The resulting administrative budget deficit of $4.9 billion for 1965 is $5.1 billion below the deficit now estimated for the current year and marks an important first step toward a balanced budget . . .

Another measure of Federal finances—one which emphasizes the impact of the Government's fiscal activities on the economy—is based on the national income accounts . . . These data indicate an excess of payments over receipts of $2.8 billion in fiscal year 1965.

The Economy and Tax Reduction

The Federal budget is a detailed plan for managing the business of Government, but it is more than that: In setting the relationship between Government expenditures and taxation, the budget is also a powerful economic force which can help or hamper our efforts to achieve stable prosperity and steady growth . . .

I believe—as did President Kennedy—that the primary impetus needed to move our economy ahead should come, in present circumstances, from an expansion of the private sector rather than the public sector. Therefore, the earliest possible enactment of the tax reduction bill now before Congress is an integral and vital part of my budgetary proposals.

Our country is currently in its fourth postwar period of economic expansion—a period which started in February 1961, and has now lasted nearly 3 years . . .

This is a record of strong expansion—and yet the expansion has not been strong enough to absorb the margin of idle workers and idle plant capacity which continues to tarnish our economy's performance. Almost 3 years after the trough of the last recession, and despite the creation of 2½ million new jobs in our economy, the unemployment rate now stands at 5½% . . .

This gap must be closed. It must be closed—as President Kennedy urged a year ago—by loosening "the checkrein of taxes on private spending and productive incentives." . . .

With prompt enactment of the tax program, economic expansion in 1964 should proceed briskly . . .

As the tax reduction takes full effect, its stimulus to private consumption and investment will shrink the $30 billion gap between the Nation's actual and potential output, and provide approximately 2 million additional jobs for the unemployed and the new workers entering the labor force . . . The higher revenues, combined with continuing pressure for economy and efficiency in Federal expenditure programs, should hasten the achievement of a balanced budget in an economy of full prosperity.

Budget Message for the Fiscal Year 1966 (January 1965)

This budget provides reasonably for
our needs... It stands on five basic principles:

- Government fiscal policies must promote national strength, economic progress, and individual opportunity.
- Our tax system must continue to be made less burdensome, more equitable, and more conducive to continued economic expansion.
- The Great Society must be a bold society. It must not fear to meet new challenges. It must not fail to seize new opportunities.

The major features of the 1966 budget translate these principles into action.

First, excise taxes are substantially reduced. Social security benefits, including hospital insurance, are increased. These are combined with other expenditure increases to yield an overall fiscal policy designed to maintain our steady economic expansion.

Second, the budget supports a massive defense establishment of steadily growing power, within reduced outlays.

Third, our international and space programs are being advanced at a satisfactory rate, but with smaller increases than in earlier years.

Fourth, expanded programs and higher expenditures are proposed to:
- Provide better and more education for our children.
- Extend the war against poverty.
- Promote advances in the Nation's health.
- Improve conditions in the urban areas where most of us live.

Fifth, a large part of the funds for needed program expansion has come from savings, reductions, and economies in other parts of the budget.

Fiscal Policy

This budget recognizes that a growing economy is needed to promote national strength and progress. It is also needed to move us toward a balanced budget...

Nearly 4 years ago, this Nation began its fourth postwar economic expansion.

With the help of last year's income tax reduction—the largest and most comprehensive ever enacted—this expansion has already outlasted each of the previous three postwar recoveries.

Nevertheless, we must keep in mind that our economy is still producing at a level well below its potential. Nearly 4 million people are out of work. The unemployment rate is still nearly 5%. Plants and machines are standing idle while human wants and needs go unmet. An estimated 35 million people continue to live in poverty.

The revenue and expenditure proposals presented in the 1966 budget are carefully designed to promote continued economic expansion and improved economic opportunities.

This budget takes into account the need to reduce the Nation's balance of payments deficit. During the last calendar year, the deficit showed a significant decline. To help insure continued improvement, I will intensify efforts to carry out Federal activities with the least possible burden on our balance of payments.

Budget Message for the Fiscal Year 1967 (January 1966)

The budget for 1967 bears the strong imprint of the troubled world we live in.

It provides the funds we now foresee as necessary to meet our commitments in Southeast Asia...

In this setting I have sought to frame a balanced program.

- We are a rich nation and can afford to make progress at home while meeting obligations abroad—in fact, we can afford no other course if we are to remain strong. For this reason, I have not halted progress in the new and vital Great Society programs in order to finance the costs of our efforts in Southeast Asia.
- But even a prosperous nation cannot meet all its goals all at once. For this reason, the rate of advance in the new programs has been held below what might have been proposed in less troubled times...

At the same time, I want to insure that the necessary increase in budget expenditures is so financed as to promote eco-
economic stability. For this reason, I am proposing several tax measures designed to increase Federal revenues.

The unprecedented and uninterrupted economic growth of the past 5 years has clearly demonstrated the contribution that appropriate fiscal action can make to national prosperity.

The 1967 fiscal program consists of the following elements:

9 First, apart from the special costs of operations in Southeast Asia, increases in Federal expenditures for high priority Great Society programs and for unavoidable workload growth have been largely offset by reductions in lower priority programs, management improvements, and other measures.

Second, I propose to supplement the expansion of Federal revenues which is a consequence of economic growth by a series of tax measures which will yield $1.2 billion in fiscal year 1966 and $4.8 billion in 1967:

- A plan for improving the pay-as-you-go effectiveness of the withholding system on personal income taxes.
- A corresponding plan to accelerate the transition of corporate income tax payments to a full pay-as-you-go basis.

10 Fifth, on a consolidated cash basis—which is the most comprehensive measure of budget totals—the 1967 budget will show a surplus of $0.5 billion.

No one can firmly predict the course of events in Southeast Asia.

If, . . . , events in Southeast Asia so develop that additional funds are required, I will not hesitate to request the necessary sums. And should that contingency arise, or should unforeseen inflationary pressures develop, I will propose such fiscal actions as are appropriate to maintain economic stability.
Appendix II
EXCERPTS ON FISCAL POLICY FROM ECONOMIC REPORTS OF THE PRESIDENT, 1955–1966

Page

Economic Report of the President, January 1955

Letter of Transmittal:

III I present below, largely in the words of the Report itself, what I regard as its highlights.

The need of our times is for economic policies that, in the first place, recognize the proven sources of sustained economic growth and betterment, and in second place, respect the need of people for a sense of security as well as opportunity in our complex, industrialized society.

A free economy has great capacity to generate jobs and incomes if a feeling of confidence in the economic future is widely shared by investors, workers, businessmen, farmers, and consumers.

IV The role of the Federal Government in the achievement of these goals is to create an atmosphere favorable to economic activity by encouraging private initiative, curbing monopolistic tendencies, avoiding encroachment on the private sector of the economy, and carrying out as much of its own work as is practicable through private enterprise . . . It should restrain tendencies toward recession or inflation. It should widen opportunities for less fortunate citizens, and help individuals to cope with the hazards of unemployment, illness, old age, and blighted neighborhoods.

Last year the Government took many steps, both legislative and administrative, to encourage economic expansion . . .

The year 1954 was one of transition from contraction to recovery. The contraction reflected the efforts of businessmen to reduce inventories, and was aggravated by a large reduction in military expenditures.

The contraction was relatively mild and brief, because of a variety of timely public and private actions.

Page

The Government cut taxes, the Federal Reserve System eased credit conditions, and the Treasury arranged its financing so as not to compete with mortgages and other long-term issues. A comprehensive program for encouraging private enterprise was submitted to the Congress. Apart from this, the decline in private incomes was automatically cushioned by increased payments of unemployment insurance and other benefits and by sharp cuts in taxes due the Government on the reduced incomes.

V Instead of expanding Federal enterprises or initiating new spending programs, the basic policy of the Government in dealing with the contraction was to take actions that created confidence in the future and stimulated business firms, consumers, and States and localities to increase their expenditures.

The vigor of the recent recovery, which has already made up half of the preceding decline in industrial production, suggests that economic expansion will probably continue during coming months. It holds out the promise that we shall achieve a high and satisfactory level of employment and production within the current year.

The wise course for Government in 1955 is to direct its program principally toward fostering long-term economic growth rather than toward imparting an immediate upward thrust to economic activity.

Further efforts to reduce Federal expenditures, together with increasing revenues from a tax base growing as the economy expands, should make possible some additional general tax reductions next year. Progress could then also be made in further lowering tax barrier to the free flow of funds into risk-taking and job-creating investments.

Scientific research and development
activities in all their phases should continue to have the earnest support of the Federal Government.

VI Measures should be considered to extend personal security against the hazard of unemployment, to strengthen minimum wage legislation, to protect savings in credit unions, and to increase the President's discretionary authority to vary the terms of insurance mortgage loans in the interest of economic stability.

A great ten-year program to modernize the interstate highway system should be authorized . . .

Action should be taken this year to help meet our Nation-wide needs for school construction . . .

Support should be provided for an Office of Coordinator of Public Works Planning in the Executive Office of the President and for a revolving fund for advances to the States and municipalities for public works planning.

Conclusion

Our Nation's recent history teaches that a foresighted Government can do much to help keep the economy stable, but experience affords no good basis for a belief that the Government can entirely prevent fluctuations.

Economic Report of the President, January 1956

Letter of Transmittal:

III I set forth below, largely in the words of the Report itself, what I regard as its highlights.

Full employment, rising incomes, and a stable dollar have been cherished goals of our society. The practical attainment of these ideals during 1955 was the year's great economic achievement.

. . . we have come to believe that progress need not proceed as irregularly as in the past, and that the Federal Government has the capacity to moderate economic fluctuations without becoming a dominant factor in our economy.

IV Both management and labor should remove restrictions on the operation of competitive markets and enhance the economy's adaptability to change. Of particular importance in a prosperous economy is the responsibility leaders of business and labor to reach agreements
on wages and other labor benefits that are consistent with productivity prospects and with the maintenance of a stable dollar.

Reliance for stability in economic growth cannot be placed exclusively on the fiscal and monetary policies of Government. The successful extension of prosperity with price stability calls for a cooperative effort in which the policies of individuals and economic groups and of all levels of government are consistent with one another and mutually reinforcing.

V The 1953-54 experience demonstrated that, when consumer and business confidence is maintained, timely public policies can help keep recessionary tendencies in check. The Government policies followed in 1955 and 1956 helped to moderate the upward pressure on prices and to prevent conditions that would threaten economic stability.

Pressures on prices, costs, and financial resources in 1956 called for the continuation of policies designed to counter inflationary forces. The Federal Government's budget surplus contributed to this end, as did the credit restraints imposed by the Federal Reserve System. The events of the year showed, however, that when production and employment are high, wage and price increase in important industries can create upward pressures on costs and prices generally, and that the monetary and fiscal policies of Government must be supported by appropriate policies to assure both a high level of economic activity and stable prices.

VI Government can strengthen the enterprise system at this time by preserving a balanced budget. Accordingly, the Congress should continue tax rates at their present levels, and Federal expenditures should be strictly limited.

Recent changes in our financial structure and practices call for careful study of the adequacy of existing facilities for meeting the Nation's capital and credit requirements and of the means for exercising appropriate controls over credit. As requested in the State of the Union Message, the Congress should authorize a National Monetary and Financial Com-

mission to perform this important task.

... To aid agricultural adjustments, recommendations will be made to the Congress for an improved acreage-allowment and price-support program for corn, and for steps to deal with problems of land use and water shortage.

... The Congress is again requested to enact a program of Federal Assistance for developing the economic base of local areas experiencing persistent unemployment.

... VII There are grounds for confidence that the Nation's over-all prosperity will be extended into the months ahead. A moderate rise in business capital outlays is indicated.

Economic Report of the President, January 1958

Letter of Transmittal:

III In the final quarter of the year, gross national product was about 1½ percent below the peak reached in the third quarter ... In the closing months of the year, and currently, the task has been to facilitate readjustments in the economy essential to the resumption of sustainable economic growth, but to do so without reviving inflationary pressures.

As we look ahead in 1958, there are grounds for expecting that the decline in business activity need not be prolonged and that economic growth can be resumed without extended interruption. The policies of Government will be directed toward helping to assure this result.

IV Financial conditions are increasingly favorable to resumption of economic growth. Credit is more readily available and its cost is lower. These conditions, together with the recent reduction in cash investment required of prospective home buyers under Federal mortgage insurance programs, tend to promote increased home building. More ample and lower-cost credit also favors a continuation of the large and growing volume of capital expenditures by State and local govern-
ments, and should help moderate the decline in investment outlays by business concerns.

At the turn of the year, the company was beginning to feel the effects of an acceleration of the placement of defense contract awards, prompted by the need to move forward quickly with programs essential to the strengthening of the Nation's defenses.

V ... Government, for its part, must use its powers to help keep the economy stable and to encourage sound economic growth with reasonably stable prices.

A legislative program is presented ... to help solve urgent problems that confront the Nation ... Fiscal policies are recommended, to meet, within the framework of a budget in which expected revenues are adequate to cover projected expenditures, the Nation's needs for strengthened defenses, for the improvement of our position in science and education, and for other essential activities.

Economic Report of the President, January 1959

III Letter of Transmittal:

... A recovery began in May 1958, and by the end of the year most of the ground lost had been regained.

... The events of the last 18 months show again the considerable capacity of our economy to resist contractive influences and to hold a downturn within fairly narrow limits.

IV Governmental actions also played an important role in moderating the recession and helping to bring about a prompt and sound recovery. Monetary and credit policies were employed vigorously to assure ample supplies of credit. Legislation was enacted to lengthen temporarily the period of entitlement of unemployment benefits. Numerous actions were taken to spur building activity. Steps were taken to accelerate Federal construction projects already under way and to speed up projects supported by Federal financial assistance. Activities under a number of Federal credit programs, in addition to those in the housing field, helped counter the recession. And the acceleration of defense procurement, which was being undertaken in line with national security policy, exerted an expansive effect.

The 1957-58 recession shows that the major emphasis of Federal policies to counteract an economic downturn should be placed on measures that will act promptly to help shift the balance of economic forces from contraction to recovery and growth. Though an effective contribution can be made by the acceleration of public construction projects already under way, little reliance can be placed on large undertakings which, however, useful they may be in the longer term, can be put into operation only after an extended interval.

The 1957-58 experience is also a reminder that there is no simple prescription for corrective action which can be applied with only minor variations in every business downturn. It emphasized the importance, in a situation in which powerful corrective forces are at work, of avoiding hasty and disproportionate action, such as tax reductions that needlessly endanger the prospects of future fiscal balance, and prejudice the orderly revision of the tax structure.

As production, employment, and income moved upward in 1958, the economic policies of Government became increasingly concerned with keeping the recovery on a sound basis and promoting a sustainable long-term expansion. Monetary and credit policy was shifted with a view to limiting the expansion of bank credit to a sustainable pace. The large financing operations of the United States Treasury are being conducted with a view to enhancing the basic stability of our financial system and promoting sound economic growth. And the fiscal operations of Government are moving in the direction of restoring a balance between outlays and incomes and thereby countering potential inflationary tendencies.

IV As 1959 opens, there is reason for confidence that the improvement in business activity which began in the second quarter of last year will be extended into the months ahead. Factors that influence decisions on business capital outlays have become more favorable, and an upturn in these expenditures may already be underway.
Our objective must be to establish a firm foundation for extending economic growth with stable prices into the months and year ahead. This will not come about automatically. To attain our goal, we must safeguard and improve the institutions of our free competitive economy. We must wage a relentless battle against impediments to the fullest and most effective use of our human and technological resources. We must provide incentives for the enlargement and improvement of the facilities that supplement human effort and make it increasingly productive. Finally, an indispensable condition for achieving vigorous and continuing economic growth is firm confidence that the value of the dollar will be reasonably stable in the years ahead.

Action to meet these challenges is required on many fronts, by all groups in our society and by all units of government.

Leaders of labor unions have a particularly critical role to play, in view of the great power lodged in their hands. Their economic actions must reflect awareness that the only road to greater material well-being for the Nation lies in the fullest realization of our productivity potential and that stability of prices is an essential condition to sustainable economic growth.

The terms of agreements reached between labor and management in wage and related matters will have a critical bearing on our success in attaining a high level of economic growth with stable prices. It is not the function of Government in our society to establish the terms of the contracts, but it must be recognized that the public has a vital interest in them. Increases in money wages and other compensation not justified by the productivity performance of the economy are inevitably inflationary.

The chief way for Government to discharge its responsibility in helping to achieve economic growth with price stability is through the prudent conduct of its own financial affairs. The budget submitted to the Congress for the fiscal year 1960, which balances expenditures with receipts at a level of $77 billion, seeks to fulfill this responsibility. If Government spending is held within the limits set in the proposed budget, the growth of our economy at the rate that may be expected would make it possible in the reasonably foreseeable future to provide, through a significant further step in tax reform and reduction, added incentives and means for vigorous economic growth and improvement.

Economic Report of the President, January 1960

Letter of Transmittal:

III The major conclusions and recommendations of the Report are set forth below, in part in the words of the report itself.

By the first quarter of 1959, the recovery that started early in 1958 had already carried production and income to levels higher than ever before attained in the American economy. A considerable further advance was scored during the remainder of 1959, despite the deep effect of the 118-day strike in the steel industry.

there are good grounds for confidence that this economic advance can be extended through 1960.

IV Three elements stand out in the Government's program for realizing the objectives of . . . the Employment Act: first, favorable action by the Congress on the recommendations for appropriations and for measures affecting Federal revenues presented in the Budget for the fiscal year 1961; second, use of the resulting surplus, now estimated at $4.2 billion, to retire Federal debt; third, action by the Congress to remove the interest rate limitation that currently inhibits the noninflationary management of the Federal debt.

these Government policies must be supplemented by appropriate private actions, especially with respect to profits and wages.

Further progress is needed in establishing a broad public understanding of the relationships of productivity and rewards to costs and prices. It would be a grave mistake to believe that we can success-
fully substitute legislation or controls for such understanding. Indeed, the complex relationships involved cannot be fixed by law, and attempts to determine them by restrictive governmental action would jeopardize our freedoms and other conditions essential to sound economic growth.

Economic Report of the President, January 1961

Letter of Transmittal:

III The major conclusions and recommendations of the Report are set forth below, in part in the words of the Report itself.

Production and employment declined in the latter part of 1960, and unemployment rose, owing in large measure to an inventory adjustment. It is encouraging, however, that the declines in production and income were moderate.

IV The over-all deficit in the United States balance of payments last year remained close to that in each of the two preceding years, but the structure of the deficit changed markedly. Short-term capital outflow accelerated.

The Federal policies needed to promote balanced growth and, to a considerable extent, be applied under existing administrative authority. But there are certain areas in which legislative action is needed.

First, funds appropriated by the Congress for the fiscal year 1962 should be held within the limits of expected revenues.

Second, Congress should give the Secretary of the Treasury authority to raise funds in the long-term capital market when, in his judgment, this is in the public interest, even if the cost of the funds is above 4½ percent.

Third, legislation is needed to enable the Federal Government to give constructive assistance to areas where there is high and persistent unemployment.

Fourth, legislative needs in the areas of health, education, and welfare, anti-trust enforcement, long-term agricultural adjustment, unemployment compensation, and housing and community development are outlined in the Report.

Finally, I recommend again that Congress amend the Employment Act of 1946 to make reasonable price stability an explicit goal of national economic policy.

Economic Report of the President, January 1962

To the Congress of the United States:

3 My first Economic Report is an appropriate occasion to reemphasize my dedication to the principles of the Employment Act. As a declaration of national purpose and as a recognition of Federal responsibility, the Act has few parallels in the Nation's history.

4 Progress in 1961

Last January the economy was in the grip of recession. Nearly 7 percent of the labor force was unemployed.

5 At the same time, gold was leaving the country at a rate of more than $300 million a month.

In my message to the Congress on February 2, I stated that this Administration's "realistic aims for 1961 are to reverse the down-trend in our economy, to narrow the gap of unused potential, to abate the waste and misery of unemployment, and at the same time to maintain reasonable stability of the price level." In a message on the balance of payments on February 6, I added a fifth aim, to restore confidence in the dollar and to reduce the deficit in international payments.

The "Program To Restore Momentum to the American Economy" which I proposed to the Congress on February 2 resulted in prompt legislation to:

- extend unemployment insurance benefits on a temporary basis;
- make Federal aid available, through the States, to dependent children of the unemployed;
liberalize social security benefits;
• promote homebuilding under the Housing Act of 1961;
• raise the minimum wage and extend it to more workers;
6 • provide Federal aid under the Area Redevelopment Act, to revitalize the economies of areas with large and persistent unemployment.

Prompt executive action was taken to accelerate Federal purchases and procurement, highway fund distributions, tax refunds, and veterans’ life insurance dividends. The Administration raised farm price supports, expanded the food distribution program, and established eight pilot food stamp programs.

Monetary and credit policies responded to the dual demands of economic recovery and the balance of payments. On the one hand, the Federal Reserve System maintained general monetary ease. On the other hand, both monetary and debt management policies countered downward pressures on short-term rates, with a view to checking the outflow of funds to money markets abroad.

The Federal Budget played its proper role as a powerful instrument for promoting economic recovery. The measures to relieve distress and restore economic momentum expanded purchasing power early in the year. Subsequently, major increases in expenditure for national security and space programs became necessary. In a fully employed economy, these increases would have required new tax revenues to match. But I did not recommend tax increases at this point because they would have cut into private purchasing power and retarded recovery.

7 Goals of Economic Policy

The unfinished business of economic policy included (1) the achievement of full employment and sustained prosperity without inflation, (2) the acceleration of economic growth, (3) the extension of equality of opportunity, and (4) the restoration of balance of payments equilibrium. Economic policy thus confronts a demanding assignment, but one which can and will be met within the framework of a free economy.

8 Our Goal of Full and Sustained Prosperity Without Inflation

The standing challenge of the Employment Act is not merely to do better, but to do our best—the “maximum.” Attainment of that maximum in 1963 would mean a GNP of approximately $600 billion . . .

9 Our Goal of Economic Growth

We have not in recent years maintained the 4 to 4½ percent growth rate which characterized the early postwar period. We should not settle for less than the achievement of a long-term growth rate matching the early postwar record. Increasing our growth rate to 4½ percent a year lies within the range of our capabilities during the 1960’s. It will lay the groundwork for meeting both our domestic needs and our world responsibilities.

Our Goal of Equal Opportunity

In 1960, 7 million families and individuals had personal incomes lower than $2,000. In part, our failure to overcome poverty is a consequence of our failure to operate the economy at potential.

10 . . . legislative proposals now pending will be particularly effective in improving the lot of the least fortunate.

I urge action by the Congress to provide Federal aid for more adequate public school facilities, higher teachers’ salaries, and better quality in education.

Our Goals of Basic Balance in International Payments

We must attain a balance in our international transactions which permits us to meet heavy obligations abroad for the security and development of the free world, without continued depletion of our gold reserves or excessive accumulation of short-term dollar liabilities to foreigners. Simultaneously, we must continue to reduce barriers to international trade and to increase the flow of resources from developed to developing countries.

11 Policies for 1962

For 1962 as a whole, GNP is expected to rise approximately $50 billion above the $521 billion level of 1961. This would be another giant stride toward a fully employed economy.
Budgetary Policy

I have submitted to the Congress a Budget which will balance in fiscal 1963 as prosperity generates sharply rising tax revenues.

Prompt enactment of the proposed tax credit for investment would give the economy further strength.

A surplus of $4.4 billion in fiscal 1963 is expected in the national income accounts budget... The surplus would be several billion dollars higher if the economy were operating steadily at a level high enough to hold unemployment to 4 percent.

Either surplus — prospective or potential — is both a challenge and an opportunity. A government surplus is a form of saving — an excess of income over expenditure.

If private demand shows unexpected strength, public policy must and will act to avert the dangers of rising prices. If demand falls short of current expectations, more expansionary policies will be pursued...

Monetary and Credit Policies

The balance foreseen in the Budget for fiscal year 1963, and the surplus which would arise at full employment, both indicate that fiscal policy is assuming a large share of the burden of forestalling inflationary excesses of demand. With monetary and related policies relieved of a substantial part of this burden, they can more effectively be used to assure a flow of investment funds which will transform the economy's present capacity to save into future capacity to produce.

At the same time, monetary and debt management policies must continue to protect the balance of international payments against outflows of short-term capital.

Balance of Payments

I am hopeful that the target of reasonable equilibrium in our international payments can be achieved within the next two years; but this will require a determined effort on the part of all of us...

Monetary and Credit Policies

The balance foreseen in the Budget for fiscal year 1963, and the surplus which would arise at full employment, both indicate that fiscal policy is assuming a large share of the burden of forestalling inflationary excesses of demand. With monetary and related policies relieved of a substantial part of this burden, they can more effectively be used to assure a flow of investment funds which will transform the economy's present capacity to save into future capacity to produce.

Measures for a Stronger Economy

The final section of my Report is a summary of my recommendations for legislative action (1) to strengthen our defenses against recession, (2) to strengthen our financial system, (3) to strengthen our manpower base, and (4) to strengthen our tax system.

A Program for Sustained Prosperity

Recurrent recessions have thrown the postwar American economy off stride at a time when the economies of other major industrial countries have moved steadily ahead. To improve our future performance I urge the Congress to join with me in erecting a defense-in-depth against future recessions. The basic elements of this defense are (1) Presidential stand-by authority for prompt, temporary income tax reductions, (2) Presidential stand-by authority for capital improvements expenditures, and (3) a permanent strengthening of the unemployment compensation system.

21 Strengthening the Financial System.

Proposals of the Commission on Money and Credit... The Commission's Report represents the results of thorough analysis and deliberation by a private group of leading citizens representative of business, labor, finance, agriculture, and the professions. The Commission's findings and recommendations deserve careful consideration by the Congress, the Executive, and the public — consideration which should result in legislative and executive actions to strengthen government policy under the Employment Act and to improve the financial system of the United States.

24 Strengthening Our Manpower Base.

(1) I urge speedy passage of the...
proposed Manpower Development and Training Act.

(2) For the same reasons, I urge enactment of the Youth Employment Opportunities Act.

(3) I have already my recommendations for improvement of the Federal-State unemployment compensation system.

(4) I am asking the Congress for more funds to increase the effectiveness of the U. S. Employment Service.

(5) I ask for enactment of the pending proposal to amend the Welfare and Pension Plans Disclosure Act.

Strengthening Our Tax System

... The center-piece of these proposals is the 8 percent tax credit against tax for gross investment in depreciable machinery and equipment.

... My other proposals for tax reform are designed to improve the equity and efficiency of the tax system and will offset the remaining net revenue loss...

Economic Report of the President, January 1963

IX To the Congress of the United States:

In response to the requirements of the Employment Act of 1946, I report to you

- that the "economic condition" of the United States in 1962 was one of continued advances in "employment, production, and purchasing power;"
- that the "foresseeable trends" in 1963 point to still further advances;
- that more vigorous expansion of our economy is imperative to gain the heights of "maximum employment, production, and purchasing power" specified in the Act and to close the gap that has persisted since 1957 between the "levels... obtaining" and the "levels needed" to carry out the policy of the Act;
- that the core of my 1963 "program for carrying out" the policy of the Act is major tax reduction and revision, carefully timed and structured to speed our progress toward full employment and faster growth, while maintaining our recent record of price stability and balance of payments improvement.

XIII Tax Reduction and Reform in 1963

... if we are to restore the healthy glow of dynamic prosperity to the U.S. economy and avoid a lengthening of the 5-year period of unrealized promise, we have no time to lose. Early action on the tax program outlined in my State of the Union Message -- and shortly to be presented in detail in my tax message -- will be our best investment in a prosperous future and our best insurance against recession.

XV ... I am proposing a major reduction in individual income tax rates. Rates should be cut in three stages, from their present range of 20 to 91 percent to the more reasonable range of 14 to 65 percent.

XVII The second step in my program to lift investment incentives is to reduce the corporate tax rate from 52 percent to 47 percent, thus restoring the pre-Korean rate.

The third step toward higher levels of capital spending is a combination of structural changes to remove barriers to the full flow of investment funds...

... side-by-side with tax measures, I am confident that the Federal Reserve and the Treasury will continue to maintain, consistent with their responsibilities for the external defense of the dollar, monetary and credit conditions favorable to the flow of savings into long-term investment in the productive strength of the country.

XIX Impact on Prices and the Balance of Payments

... prices have been essentially stable for 5 years. This has broken the inflationary psychology and eased the task of assuring continued stability.

We are determined to maintain this stability and to avoid the risk of either an inflationary excess of demand in our markets or a renewed price-wage spiral. Given the excess capacities of our economy today, and its large latent reserves of productive power, my program of fiscal stimulus need raise no such fears.
XXI Tax Reduction and Future Fiscal Policy

Work on the development of an acceptable plan for quick tax action to counter future recessions should continue; with the close cooperation of the Congress, it should be possible to combine provision for swift action with full recognition of the Constitutional role of the Congress in taxation.

Other Economic Measures

XXII Transportation

Among the recommendations in my Transportation Message of April 1962 were measures which would provide or encourage equal competitive opportunity under diminished regulation, consistent policies of taxation and user charges, and support of urban transportation and expanded transportation research.

XXIII Permanent Unemployment Compensation

I will propose later this year that Congress enact permanent improvements in our Federal-State system of unemployment insurance to extend coverage to more workers, and to increase the size and duration of benefits.

XXIV Policies for Faster Growth

Tax Revision

Tax reduction will remove an obstacle to the full development of the forces of growth in a free economy. To go further, public policy must offer positive support to the primary sources of economic energy. I propose that the Federal Government lay the groundwork now for positive action in three key areas, each singled out by the Cabinet Committee as fundamental to the long-run strength and resilience of our economy: (1) the stimulation of civilian technology, (2) the support of education, and (3) the development of manpower. In each of these areas I shall make specific proposals for action. Together with tax revision, they mark the beginning of a more conscious and active policy for economic growth.

Economic Report of the President, January 1964

3 To the Congress of the United States:

This is my first report to you under the Employment Act of 1946.

As the Employment Act requires, I shall in this report:

- assess our progress toward our economic goals,
- review the current and foreseeable trends in the U.S. economy in relation to its potential, and
- set forth my policy and program for achieving our national economic potential.

6 . . . the acid test of economic policy is whether we can make full use of our growing labor force and our rising productivity — our full potential.

The Job Ahead of Us

We have not yet met this test. New high ground is not the summit.

the size of the job that lies ahead of us is measured by —

1. Unemployment — 5½ percent of our labor force is still idle, even after a year-to-year advance of $30 billion in our GNP.

2. Productivity advance — we need about two billion new jobs each year to offset the labor-saving effects of rising output per worker.

If we are to master these problems, we must above all enact the tax bill (H.R. 8363)

- not in one or two or three months, but now;
- not in diluted, but in strengthened form, with an immediate drop from an 18-percent to a 14-percent withholding rate.

We enter 1964 with optimism

- riding the strong mount of an expansion that has already crossed the $600 billion mark, and
- responding to the expected spur of a quickly enacted $11 billion tax cut.

With the tax cut, promptly enacted, our gross national product for 1964 should rise from $555 billion for 1963 to a projected $623 billion (understood as the midpoint of a $10 billion range) . . .
Prospects are favorable for continuing in 1964 our good record of price stability and stable unit labor costs.

Monetary Policy and Balance-of-Payments Measures

A strong upswing in the economy after the tax cut need not bring tight money or high interest rates, especially when

- our balance of payments is improving so sharply in response to measures begun in 1961 and reinforced last July;
- the budget for fiscal year 1965 will cut the Federal deficit in half and ease pressures on interest rates from Treasury borrowing.

It would be self-defeating to cancel the stimulus of tax reduction by tightening money. Monetary and debt policy should be directed toward maintaining interest rates and credit conditions that encourage private investment.

But monetary policy must remain flexible, so that:

- It can quickly shift to the defense if, unexpectedly, inflation threatens or the balance of payments worsens.

Labor and Manpower Policies

In 1946 we must redouble our efforts to meet these problems of our working people:

1. Automation. Technological change is a prime mover of our economic growth — but it can lead to painful job displacement.

- A special high-level commission should be established to determine how we can best gain the benefits of automation while minimizing its human costs.

3. Unemployment insurance. The burden of displacement on the individual must be eased by extending the coverage and increasing the benefits of our unemployment insurance programs.

Transportation and Technology

It is particularly urgent that the Congress now enact legislation before it

- to assist our cities in modernizing their mass transportation facilities;
- to revise and strengthen our national transportation policy and place more reliance on the creative force of competition.

Housing and Community Development

Authorizations expire this year for several of our major programs. They need to be renewed and extended.

- to renew the decaying areas of our cities, while minimizing the burden of dislocation on families and small businesses;
- to allow cities to acquire land for open-space urban use and to facilitate, better urban planning;
- to strengthen our program of low-rent public housing;
- to provide for construction of more specialized housing for the elderly.

The War on Poverty

In the State of the Union Message, I announced that this Administration was declaring unconditional war on poverty in America.

There are two major prongs to our specific attack on poverty in America:

First, to enable every individual to build his earning power to full capacity.

Second, to assure all citizens of decent living standards regardless of economic reverses or the vicissitudes of human life and health.

Economic Report of the President, January 1965

To the Congress of the United States:

I am pleased to report

- that the state of our economy is excellent;
- that the rising tide of our prosperity, drawing new strength from the 1964 tax cut, is about to enter its fifth consecutive year;
- that, with sound policy measures, we can look forward to uninterrupted and vigorous expansion in the year ahead.

The Role of Economic Policy

since 1960 a new factor has
emerged to invigorate private efforts. The vital margin of difference has come from Government policies which have sustained a steady, but noninflationary, growth of markets.

I believe that 1964 will go down in our economic and political history as the "year of the tax cut."

It was not the first time that taxes were cut, of course, nor will it be the last time. But it was the first time our Nation cut taxes for the declared purpose of speeding the advance of the private economy toward "maximum employment, production, and purchasing power."

6 Monetary policy has supported fiscal measures. The supply of credit has been wisely tailored to the legitimate credit needs of a noninflationary expansion, while care has been taken to avoid the leakage of short-term funds in response to higher interest rates abroad.

7 The Unfinished Tasks

1. Four years of steadily expanding job opportunities have not brought us to full employment. Some 3.7 million of our citizens want work but are unable to find it . . .

2. Four years of vigorous efforts have not yet brought our external payments into balance. We need to complete that task — and we will.

The stability of the American dollar is central not only to progress at home but to all our objectives abroad.

8 3. . . . No planned economy can have the flexibility and adaptability that flow from the voluntary response of workers, consumers, and managements to the shifting financial incentives provided by free markets.

4. American prosperity is widely shared. But too many are still precluded from its benefits by discrimination . . .

The war against poverty has begun; its prosecution is one of our most urgent tasks in the years ahead.

5. Our goals for individuals and our Nation extend far beyond mere affluence.

The quality of American life remains a constant concern.

The task of economic policy is to create a prosperous America. The unfinished task of prosperous Americans is to build a Great Society.

9 Economic Prospects for 1965

Approval of the fiscal program I have recommended means that GNP in 1965 should expand over 1964's record level and reach — as the midpoint of a $10 billion range — $660 billion for the year.

Federal Fiscal Policy

Private demand will be strong in 1965. It will be further sustained by Federal fiscal measures.

Purposeful expenditures, stimulative tax reduction, and economy in Government operations are the three weapons which, if used effectively, can relieve our society of the costs and consequences of waste.

Carrying out these principles, I have submitted a budget which will once again contribute expansionary force rather than restrictive pressure on our economy.

As measured by their effects on incomes and production, Federal expenditures, grants, and transfer payments in calendar 1965 will exceed by $5 billion their amount in 1964. The largest single part of this increase will arise from the 7 percent increase in Social Security payments I have proposed.

10 The reduction or elimination of many excise taxes (when fully effective, $1.75 billion a year) — partially offset by appropriate new or increased user charges — will accomplish a net tax reduction of nearly $700 million within calendar year 1965. In addition, another $1 billion reduction in corporate income tax liabilities becomes effective this year. So does a further $3 billion reduction in personal tax liabilities (although not in withholding rates).

11 Monetary Policy in 1965

As in 1964, an expansionary monetary policy will be tempered by the urgency of our balance of payments problem. But
barring domestic or international emergency, our monetary and debt-management policies can serve—as they have since 1960—to accommodate the credit needs of a noninflationary expansion.

12 Maintaining Wage-Price Stability

The remarkable price stability of 1959-63 persisted throughout 1964. There is good reason to believe that it will continue in 1965.

Yet watchful caution must govern public and private policies in 1965.

International Economic Policies

Continued cost and price stability is fundamental to correction of our balance of payments deficit—it is the foundation on which we must build our entire effort to achieve external equilibrium.

15 Manpower Policies for a Flexible Economy

Job opportunities and men must be matched. Workers must have the requisite skills—and the opportunity to gain new skills if advancing technology finds less use for their old ones.

To a substantial degree, strong demand for labor will bring workers and jobs together. But sole reliance on strong demand would place price stability under an unnecessary threat.

16 Maintaining Incomes of the Disadvantaged

Not every person can share fully in the fruits of our progress through his own daily productive effort. Large numbers of our retired and handicapped cannot work.

17 America’s efforts to eradicate poverty are quickly taken shape under the Office of Economic Opportunity. Programs of community action, education, training, and work experience will strike at the roots of poverty, especially among our youth. I urge a doubling of appropriations to intensify these efforts.

Improving Urban Life

The Federal Government has neither wish nor power to abolish the legal boundaries that divide an urban area. But the Federal Government helps cities because many aspects of urban life pose problems of national as well as local concern. We can increasingly require—as a condition for Federal help—that the separate units work and plan together to assure that Federal aid and federally financed facilities will be used effectively in improving urban life.

Economic Report of the President, January 1966

3 To the Congress of the United States:

A year ago I reported that we were “in the midst of the greatest upsurge of economic well-being in the history of any nation.” That upsurge, now about to enter its sixth year, continues without let-up.

In the light of these unprecedented and continuing gains, some observers are posing questions not heard in almost a decade.

- Will there be enough plant capacity to produce all the goods and services buyers will seek?
- Can our employers find the labor they will require to man their production lines?
- Can we avoid bottlenecks in major industries or key skills that would hamper our expansion?
- Can we keep destructive price-wage spiral from getting underway?
- Can we move ahead with the Great Society programs and at the same time meet our needs for defense?

My confident answer to each of these questions is YES.

We face the challenges of prosperity while some 200,000 of our fellow citizens and billions of dollars of our resources are engaged in a bitter defense of freedom in Vietnam.

10 Economic Outlook for 1966

Demand will continue to grow rapidly in 1966 and production will respond. The
vigor of investment spending demonstrates strong business confidence in the growing sales, rising profits, and firm operating rates which spur expansion and modernization. The rising defense needs of the Federal Government are an important new force in the economy.

As the midpoint of a $10 billion range, $722 billion is the projected level of GNP in 1988.

Fiscal and Monetary Policy

The fiscal program I recommend for 1966 aims at full employment without inflation.

I have reviewed every program of Government to make room for the necessities of defense. I have sharply reduced or eliminated those civilian programs of lowest priority.

But, as I indicated in my State of the Union Message, I am unwilling to declare a moratorium on our progress toward the Great Society. My budget will add $3.2 billion to our war against poverty, ignorance, and disease. Yet savings elsewhere will hold the rise in the Administrative Budget — apart from the added costs of Vietnam — to only $600 million.

Moreover, I am asking the Congress to enact promptly a combination of proposals affecting tax payments in the year ahead:

• a rescheduling of the January 1, 1966 and later excise tax reduction enacted last June for automobiles and telephone service;

• a graduated withholding system that will improve the pay-as-you-go basis of our personal income taxes without increasing tax rates or tax liabilities;

• a corresponding speed-up in payments of corporate income taxes this year and next, also without increasing tax rates or tax liabilities; and

• a method of paying self-employed Social Security taxes on a current basis.

I will also look to the Federal Reserve System to provide assistance in promoting the objectives we all share:

• meeting the credit needs of a vigorous and growing economy, while

... could carry the pace of expansion beyond prudent speed limits.

The Uncertainties

... If the tax measures I am now proposing, in conjunction with the moderating influence of monetary policy, do not hold total demand within bounds of the Nation's productive capacity, I will not hesitate to ask for further fiscal restraints on private spending.

12 Maintaining Cost-Price Stability in 1966

One of the problems of prosperity we face in 1966 is that of achieving stability of prices and costs at full employment.

The attached Report of the Council of Economic Advisers contains a thorough discussion of its guideposts for noninflationary wage and price behavior. To maintain price stability in the expanding economy of 1966, it is vitally important that labor and industry follow these guideposts.

13 International Economic Policies for 1966

Decisive progress was made in 1965 toward reducing our balance of payments deficit. Though the results for 1965 are gratifying, we cannot afford to relax. We have not yet balanced our external accounts.

As we achieve and maintain balance in our external accounts, dollars will no longer add to international monetary reserves as they have in the past. We learned long ago that we cannot rely on gold alone. The free world must look to new sources of liquidity — rather than to deficits in the U.S. balance of payments — to support growing international trade and payments.

15 Urban Problems and Policies

... we have been developing a program to rebuild — in cooperation with State and local governments, private agencies, business enterprises and local citizens —

the physical, institutional, and social environment of our urban areas.

I am asking the Congress to consider proposed legislation to carry out these objectives.
Transportation

I am recommending the creation of a Department of Transportation

- to manage the vast Federal promotional programs in highways, waterways, air travel, and maritime affairs, and
- to take leadership in the development of new transportation policies in accord with current realities.

Perhaps our most serious economic challenge in 1988 will be to preserve the essential stability of costs and prices which has contributed so significantly to our balanced progress.

I do not know what additional burdens of defense the American economy will be asked to assume in 1988. Whatever they are, they will be met, and they will be small relative to the growth of our abundance. But in an economy approaching full use of its resources, the new requirements of Vietnam make our task of maintaining price stability more difficult.

To insure against the risk of inflationary pressures, I have asked Americans to pay their taxes on a more nearly current basis, and to postpone a scheduled tax cut. If it should turn out that additional insurance is needed, then I am convinced that we should levy higher taxes rather than accept inflation — which is the most unjust and capricious form of taxation.