

TO THE EDITOR

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suggest a surplus, but only that revenues would grow by \$7 billion, which they will.

Item. I said that tax reduction was regarded by some as a "residual" use of the prospective \$50 billion revenue growth over five years, the part quoted by Mr. Hazlitt. He did not quote the part of my article in which I said that many men believed that tax reduction should have priority for its own sake. The article was neutral on this point, though no one reading Mr. Hazlitt's critique would know it.

Mr. Hazlitt is quite right in saying that the "fiscal drag" argument must take into account the public debt transactions that would occur in the case of an actual budgetary surplus. There is, as he says, no necessary drag. It all depends on what debt is eliminated, who holds it, etc.—which my article said (though admittedly briefly).

I'm sorry Mr. Hazlitt has turned angry. It is not worthy of him.
Washington, D.C. EDWIN L. DALE JR.

A Reply

Mr. Dale's *New York Times* article was entitled: "Uncle Sam's \$50 Billion Surplus." Only, he wrote, "if Mr. Johnson successfully gets rid of next year's \$7 billion, and the following year's \$8 or \$9 billion, and then the \$9 or \$10 billion of the year after that," could the country avoid a "slump." I simply pointed out that this surplus was a figment of Mr. Dale's imagination.

He now admits that his projection for the next five years had nothing to do with the real world, but was purely hypothetical. If the present overheated boom continued at the same rate, if taxes were not reduced, and if miraculously expenditures were not increased a dollar beyond the amounts already absolutely prescribed by present laws, then . . . etc., etc. Merely to jolt Mr. Dale

back to realities, I pointed out that in the last five years actual tax revenues had risen an average of only \$2.8 billion a year, whereas actual expenditures had soared an average of \$5 billion a year.

Mr. Dale now thinks he wrote that "tax reduction was regarded by some as a 'residual' use," etc. He did not attribute this view to others; he stated it as his own: "Finally, there is the matter of tax cuts. In one sense, this can be regarded as a residual use of part of the \$50 billion." It is the view that "tax reduction should have priority, rather than be regarded as a residual device," that he attributes to others, notably "conservatives."

Mr. Dale now says that his article "was written before it was clear that the entire revenue growth, and probably more, would be spoken for by defense and other demands." Before it was clear to whom? It may not have been clear to Mr. Dale, but it was clear to almost everybody else. I wrote: "So if, instead of viewing so complacently the revenue outlook for the next five years, and devising new ways of spending an imaginary \$50 billion surplus, Dale had confined himself to an earnest study merely of the next fiscal year, he might have seen that the real problem was, not how to think up ways of spending a \$7 billion surplus, but how to think up taxes to avoid a \$10 to \$14 billion deficit."

Yet my own article was written before the Johnson Administration had admitted the much bigger spending outlook for Vietnam, or that the deficit even in the current fiscal year might reach, instead of \$5 billion, somewhere between \$7 and \$10 billion. My own figures were based on the already notorious record of Great Society authorizing, without even counting the Vietnam boost. They understated the seriousness of the budget outlook.

There is one major oversight in Mr. Dale's extrapolations that I did not even mention. He completely forgot that the same factors that create a "built-in" rise in government revenues—such as population growth and price and wage inflation—likewise create a "built-in" rise in government expenditures.

So much for the factual side. When this correspondence is published the official budget figures may in any case be known. They may even be realistic. My article was written chiefly to expose the fallacies even in the theoretical argument that a budget surplus is necessarily or even probably deflationary. But I do suggest that it was particularly irresponsible, when the government is running its sixth heavy deficit in succession, and facing still more ominous ones, to feed the American public a pipe dream about "Uncle Sam's \$50 Billion Surplus."

Wilton, Conn.

HENRY HAZLITT

SOLUTION TO LAST ISSUE'S TRANS-O-GRAM (January 25)

WARREN FLEISCHAUER [THE THEME IS] ELBOWROOM

"Elbowroom" . . . means the opportunity to breathe, live, grow, develop, realize one's talents, achieve such excellence as is humanly possible, to engage in "the pursuit of happiness". The human person is less aware of it when he possesses it . . . than he is aware of its necessity when deprived of it.