ning deficits. Deficits occur because revenues depend upon a high-level economy, with corporate profits and personal incomes growing at vigorous rates. Therefore, the experience of the 1957–58 recession particularly emphasizes that a reduction in taxes, by taking the brake off economic recovery will bring in more revenues. Tax cuts will result in no deficits or smaller deficits than would be the case if tax cuts were not made and the economy did not achieve its normal recovery.

The central idea is that the economy suffers from a harsh fiscal policy growing out of the Korean war economy. The Federal Reserve System, concerned with the international balance of payments, has been pursuing a relatively tight money policy course. In order to offset this tight money policy as well as to release the harsh fiscal choke, a cut in taxes is necessary.

There is another element of the strategy. Because of this situation a rather substantial cut in taxes could be made, on the order of magnitude of $10 to $15 billion, to help avoid the repressive effects of fiscal policy on the economy. We have the additional strategic advantage in this situation that if at any point it appeared that fiscal policy were too easy (which is extremely unlikely), the Federal Reserve authorities could tighten monetary policy even further.

Also, the realm where monetary policy is particularly effective is in stopping a too vigorous rise in economic recovery. It is said that monetary policy is like a string—you can pull with it but you cannot push. Hence we are in the position where fiscal policy is so tight that the only thing monetary policy could be expected to do would be to push with the string, and it cannot. Whereas what we need to do is to change the fiscal relationship so that once again we are in a position to use monetary policy effectively in the way that it should be used. But what we have had for several years is both a tight fiscal policy and a restrictive monetary policy. Since the monetary authorities are likely to continue the tight money policy, fiscal policy must be eased in the direction of substantial tax reductions.

Chairman PATMAN. Thank you, sir.

Our next witness will be Dr. Daniel B. Suits, professor of economics, University of Michigan.

Dr. Suits.

Do you have a prepared statement, sir?

STATEMENT OF DR. DANIEL B. SUITS, PROFESSOR OF ECONOMICS, UNIVERSITY OF MICHIGAN

Dr. SUITS. I have only a manuscript statement.

Chairman PATMAN. That is all right, sir. You may proceed in your own way.

Dr. SUITS. My analysis and economic forecasts are based on the use of an econometric model of the U.S. economy. Essentially, this consists of a system of mathematical equations statistically derived from the interplay of the important factors in our economic life.

This system of equations has been generally described in earlier testimony before this committee, and a complete discussion of it, together with its past forecasting experience, will be found in an article entitled "Forecasting and Analysis With an Econometric Model,"