Senator BUSH. As the Senator from Illinois pointed out, if you have a tax cut of the order of $5 or $6 billion, this would be probably in addition to what other deficits we may face in fiscal 1963. Those estimates are now of the order of $4 billion or maybe more than that, without any thought of a tax cut. So we are thinking in terms of a possible deficit of $10 billion that might occur from a tax cut at a time when, as you point out, things are very good. The economy is high, gross national product is high, national income is high, and the various elements of the economy are strong and looking strong.

Wouldn't you be fearful, or would you be fearful that the financing of this kind of a deficit which, as the Senator pointed out, would largely have to be done by addition to the money supply through financing through the banking system, that this would have an inflationary effect which might injure the very object or retard the very object we are seeking to attain?

Mr. GREENWALD. I would say no in this respect. I think our economy does have excess capacity, as I pointed out. We have to close the excess capacity gap in unemployment and in facilities. The most important thing it seems to me would be to close this gap. The way I would think of tax changes would be along the type of tax reform where business would get some advantage and the consumer would get some advantage.

Senator BUSH. Mr. Ellis, the Du Pont economist, pointed out yesterday that we always have excess capacity in some areas. It is not unusual or undesirable that we have excess capacity. In some areas of the economy we don't have excess capacity. We are running close. We don't run to our full capacity for very long. I just wonder if this talk about excess capacity is not exaggerated from time to time. What is your comment about that?

Mr. GREENWALD. I would say no, sir; I don't think it is, especially when we deal with the manufacturing area. In other areas I can't say because I don't know enough about them. When I talk about capacity, I am talking about what the companies are telling us about capacity, not something that I estimated. This is a direct measure. If a company tells us it is working at 80 percent of capacity and it would like to operate at 95 percent of capacity, I know that that particular company has 15 points of what might be called excess capacity. This margin has to be reduced to the point where it can do its best job and produce its best profitmaking operation.

On the average for all manufacturing, we now arrive at an 84 percent operating rate and a 90 percent preferred rate. So you have a gap of only 6 points. But there are 6 points to eliminate before you would get the most efficient operating rate.

Senator BUSH. On that point, aren't we gradually closing it?

Mr. GREENWALD. We are. We have moved up from the low of the recession. However, you can say in a way that we have not moved up as fast as many of us thought we would. I don't know whether that is significant or not. But, if the businessman makes a plan and he thinks he is going to do so much in sales but doesn't, then you might say that this has some impact on his confidence. However, I don't think it has had much impact up to this time.

Senator BUSH. I think your estimate of the plans of businessmen is very reassuring, indeed. I certainly agree with your own opinion