relationship to Federal spending which chokes off the economy before full employment is reached? If the budget tends to balance before full employment is reached, the ailment could be cured by either of two methods.

Dr. McCracken says, "Cut taxes." Galbraith might say that public expenditures should be increased.

Mr. PECHMAN. I agree.

Representative REUSS. I have used your names rather freely. I hope I have not misinterpreted your positions.

Mr. MCCRACKEN. No. Clearly the two sides of the budget must be taken into account. I would agree with this. A tax cut would temporarily mean an enlarged deficit. If, however, tax reforms will really strengthen the economy (as I think they can) we can be ahead of the game in the long run on renewals of the deficit.

Representative REUSS. There has been much talk recently about a tax cut as though it were the only way out. Actually, budgetary balance seems to me to be the real problem. I am not suggesting what fiscal policy mix we should have, except to say that the best mix is one which combines relatively easy money and low interest rates, a tax cut and spending for the Nation's needs. An aggressive trade policy would also help.

Representative REUSS. Dr. Eckstein, in your statement on page 8, you refer to the argument which says,

> Why cut taxes now, since this will cause interest rates to rise and to cancel the benefit of the tax cut? The growth rate will not increase, but we will have a larger deficit.

Your reply is that, although the monetary authorities actually shrank the money supply and increased interest rates in the 1958–59 recession, they will now allow the money supply to increase at some modest rate. Why do you think this will be the case, particularly in view of Mr. Martin's recent testimony that he would not permit any of the deficit resulting from a tax increase to be financed by the banks.

Mr. ECKSTEIN. It would certainly be far beyond my capabilities to analyze why our central bank does what it does when it does. However, what I am really trying to say is this: The tightness of money and the level of interest rates in 1963 will be largely determined by the policy choices made by the Federal Reserve and the Treasury. I do not know whether they will do the right thing or the wrong thing, but the extra few billion of deficit which will have to be financed, I doubt will be the decisive considerations. It would obviously raise interest rates somewhat. But I do not believe that additional financing alone would reverse the basic tone of the capital markets.

Could I also take another moment while I have the floor? When I read my statement I also made a quick comment on the possibility of lowering withholding schedules effective January 1. I stand corrected on that. It would take congressional action to lower the withholding rates.

Representative REUSS. I am glad you made that point because I was about to ask you. More administrative flexibility in the withholding provision might be desirable, but it does not now exist.

Senator PROXMIRE. I would like to ask Mr. Eckstein, Senator Javits indicated there is not much prospect of a tax cut. Yet Senator Javits