

prepared statement had been mimeographed that I got the July Federal Bulletin with the new seasonally adjusted data.

Senator PROXMIRE. To follow up on this, would you not all agree that if the Federal Reserve Board and the Treasury continued to follow a tight money policy, if they continue to push up interest rates, if they continue to shrink reserves, and the Chairman of the Federal Reserve has indicated he might very likely adopt such a policy, and action on the part of the Treasury has indicated they are moving in the same kind of direction, then we are going to need a bigger tax cut to get the same stimulation in the economy? Furthermore would you agree that it is conceivable that if we have a relatively modest and small tax cut with a substantial increase in interest rates, that the economy might not move at all. It might stand still or even retrogress.

Mr. PECHMAN. I would agree that, to the extent interest rates are raised, a larger tax cut would be necessary. However, I would hope that, if we had a substantial tax cut, it would not be accompanied by higher interest rates.

I certainly do not think that we ought to permit long-term interest rates to rise and to reduce investment at the same time that we are trying to promote investment. That would be ill-advised policy under present circumstances.

Senator PROXMIRE. I would like to ask Drs. Eckstein and McCracken one more question:

In reply to what Mr. Reuss said about cutting taxes and increasing expenditures, you indicated that the expenditure side of the budget, Dr. Eckstein, was pretty difficult to expand. In Dr. McCracken's presentation he said on page 14, this proposal for a tax cut would be, in short, a step toward fiscal conservation. In the long run it would make for a less rapid increase in expenditures and more spacing on the tax side for further needed reforms. I know that Dr. Eckstein said that a reduction in tax rates will force the Government to scrutinize expenditures more closely in the coming budget.

I believe in economy in Government. I wish I could subscribe to your view that taxcutting will lead to expenditure reduction. But I feel when economists are talking about deficits and asserting that we need bigger deficits, this destroys the discipline Government has. You can make a strong argument if you accept your basic assumptions for almost unlimited spending. Services are needed and wanted. There is a lot of pressure for them. What is a poor Senator or Congressman going to do when he gets that kind of pressure and when the economists say it will be greater for economy if you cut taxes and increase spending? It is wonderful for the politician if he accepts that viewpoint. When you do that you get in the position where you could have a very bad misallocation of resources, and where you have no real discipline to exercise prudence in Government spending. This directly contradicts what both of you gentlemen said in your statement. Does not this concern you at all?

Mr. ECKSTEIN. I think you would agree with us, would you not, sir, that in general a tax cut would lead to less spending than no tax cut.

Senator PROXMIRE. In old days, yes. But now when a tax cut is justified not because spending has been reduced or spending can be reduced, but although spending is increasing and has been increasing,