

both material and human. More than at any prior time, we are aware of the problems brought about by sharp changes in defense activity and are better prepared to manage the transition. However, it does take planning and cooperation from all sectors of our economy.

Thank you, Mr. Chairman.

Chairman PROXMIRE. Thank you, Mr. Schultze, for another very competent, interesting, and imaginative paper.

Mr. Schultze, next year, as you know, and as we all know, is an election year. The administration may be reluctant to come in for another tax increase next year. And Congress may be reluctant to demand the absolute data in time. Will we repeat last year's error? How can we work together to avoid this possible repetition?

Mr. SCHULTZE. How do I avoid stopping beating my wife?

I am trying to collect my thoughts to get at your point.

In the first place, we have, as you know, proposed a specific fiscal program, certain specific actions this year. And one of the obvious points is to take a look at what happens here—

Chairman PROXMIRE. What I am getting at, you know what happened last year, with prices rising and with the big deficit we had, causing interest rates to rise, and so forth. Many of us have been concerned about the reverse happening at the beginning of this year. Now, the indicators are pointing in the other direction. They suggest that we might have a tighter economy than was indicated in February and March.

Now, if the war is escalated, and if we do not pass a tax increase this year—and there is a big indication we may not—my question is, what can we do to be better prepared for next year so that we get the kind of information which will alert Congress, and at least make us familiar with the economic dangers we face from changes in Vietnam spending?

Mr. SCHULTZE. My difficulty with the question, Senator, is that we believe the economic situation will require a tax increase before next year. And this essentially is what we would believe is the first prerequisite of handling the situation.

Now, you ask me what happens if we do not get what we think is necessary to handle the economic situation, how can we better handle the situation next year. I am a little bit at a loss as to how to answer that. It seems to me that if our economic forecasts are correct, and if a tax increase is not passed, there will be even more reason to come in earlier next year with the same request.

Chairman PROXMIRE. Mr. Anthony appeared here this morning speaking for the Defense Department. And although there have been a lot of rumors and much talk about escalation in the Defense Department, he was standing firmly by the January estimate. This is mid-April, and there has not been any change in his view. He thinks it is unlikely that we would be spending more the rest of the year. To me it would seem that if we are going to put Congress in the mood for a tougher policy, either for a tax increase or for a spending reduction in a nondefense area, that the administration should recognize that warning of an escalation and make a frank statement of any increase in the defense spending beyond what was originally estimated.