

Mr. BOLTON. That is correct. That is the choice which must be made. My own value judgments are to continue public programs at their present level and to raise taxes to reduce private spending, but reasonable men can easily disagree on this.

Chairman PROXMIRE. You would agree that the economic impact would be roughly the same?

Mr. BOLTON. In the regional sense I would say yes.

Chairman PROXMIRE. Wouldn't it be easier to pinpoint it from a regional standpoint if you reduce spending?

Mr. BOLTON. I don't understand the question.

Chairman PROXMIRE. Well, if you have a big public works program on the self or about to move, in an area where you already have a scarcity of manpower, and you expect the defense demand is going to require the use of that manpower and of those facilities, in that area you would restrain your public works operation, cut your roadbuilding.

Mr. BOLTON. That is true. You probably would be able to pinpoint the decreases more precisely. That is a point I suppose for reducing public spending.

On the other hand, as I indicated, I think an increase in taxes would reduce consumer demand, and this also would have a heavy impact on the Midwest. We know consumer demand would probably be heavily in durables.

Chairman PROXMIRE. Because of the automobile industry?

Mr. BOLTON. In durables such as automobiles or in housing construction, or something of this sort.

Chairman PROXMIRE. It is pretty hard, you know, to have anything but a very diffuse overall national impact if you increase taxes. If you follow the administration's proposal of a 6-percent increase in a surtax on individuals and corporations, I don't know how you could construe that as reducing the demand for automobiles, for instance, and then making it possible to produce more jeeps or helicopters.

Mr. BOLTON. Well, you must remember that no matter where the initial change in demand is, that there are subsequent responses, multiplier responses.

Chairman PROXMIRE. Yes. I am talking about the regional situation right now.

Mr. BOLTON. I am saying these induced effects would eventually work back into the traditional manufacturing areas as well, so that even if you reduced public works expenditures in California say, eventually some of the reduction in the impact, not all of it but some of it, would come back to the Midwest, because steel, for example, and various kinds of construction equipment, and so forth, is produced in the Midwest.

Chairman PROXMIRE. You see, the reaction I get is that when we talk about meeting the problems of escalation, and a greater demand on our resources and inflationary pressures, the answer is to increase taxes.

Then when we come to the deescalation problem, negotiations, the answer is to increase public spending on programs that we need, spending on antipollution, spending on various antipoverty programs, and so forth.

So that it would seem that the taxpayer gets it either way. He doesn't get any relief on deescalation, at least that doesn't seem to be the top priority, and he has to pay more on the escalation.