

Chairman PROXMIRE. Thank you very much.

Your statement, Mr. Sumichrast, along with the statements by Mr. Paradiso and Mr. Katona, especially suggest to me a real caveat to Congress; and as to the powerful and emphatic recommendation by the Chairman of the Council of Economic Advisers yesterday that he is committed—and it seems that intellectually and logically on the basis of economic statistics we ought to be committed—to a tax increase, I am not so sure that we have gotten that kind of conclusion here this morning.

For example, Mr. Katona, you indicate that the consumer demand is unlikely to be exuberant and, Mr. Paradiso, you certainly indicate some real question about the likelihood of a real upsurge in investment in plant and equipment and you suggest we still have some most serious inventory problems, especially in durable goods.

Mr. Sumichrast, at least you see clouds in the horizon. You see some turnup but not a very big turnup in homebuilding.

Put all these together and where does it take us? I would like to start off, Mr. Katona, with asking you to comment and see if you would agree or if you would shade the statement that was made by Mr. Ackley yesterday when he appeared here.

He said: "It would not be prudent, however, to count on a swift reduction in the saving rate. More conservatively, there are sound grounds for conviction that the saving rate will not rise further. Thus, consumption gains will at least keep pace with advances in disposable incomes."

In other words, he feels that he is not banking on a big upsurge in consumer demand but feels that consumption gains will keep pace with advances in disposable incomes.

Would you agree with that?

Mr. KATONA. I think I would agree with this statement, which is far from exuberant. We have reached unusually high savings rates during the last winter when there were circumstances which had such an impact on the American consumers that a recession was really probable.

Due to various circumstances which I outlined, we have skirted the recession. It did not come. We are in a period of slow improvement. There is still much sluggishness. There is no exuberance, as you, Mr. Chairman, just stated. In other words, we are still in a precarious situation today. Compared to what we had in 1964, 1965, and early 1966, we are not in a good shape.

The consumers are far from confident and they have very many misgivings. Therefore, from the point of view of consumer trends, a further restriction of purchasing power is not indicated, in our opinion, even though I agree with Mr. Ackley that a further increase in the rate of saving is not probable.

Chairman PROXMIRE. With this language of consumer confidence, would this consumer disposition to spend and propensity to save likely be increased by the announcement by the President of the United States that he was pushing for a tax increase? Would people be more or less likely to save?

Mr. KATONA. The tax increase will be viewed as a reduction in purchasing power and therefore as a bad sign for the prospects of the economy. This is clear because today still the beneficial effects of the tax cut in 1964 are well remembered.