

would never be necessary in what we still consider as relative peacetime.

I would also like to differ with Dr. Katona's position on the tax question. It seems to me that the size of the deficit—whether it is the \$24 billion deficit without a tax increase, the \$19 billion deficit with a tax increase, or the \$14 billion deficit X-ing out the PC part of the financing—given the basic health of the economy, is well in excess of what is required from fiscal policy to operate responsibly in maintaining a growing economy.

I would be very strongly in favor of adoption of the 6 percent tax increase at the earliest possible moment, without regard to the slight drag this might exert on the private economy. Were the tax to be enacted effective October 1, the administrative deficit, instead of roughly \$14 billion after X-ing out the various factors, would be of the order of \$12½ to \$13 billion. This would translate to perhaps an \$8 billion national income accounts deficit, which I believe is an adequate contribution for fiscal policy given the basic health of the economy.

Secondly, if defense spending were to increase by any of the amounts that are mentioned, and it is my understanding that this is a decision that has still not been taken, I would hope that the tax increase would be scaled up accordingly to deal with this increase in Government spending. I speak from something of a biased position because of my position in the financial market, but I am very seriously concerned about the orderly functioning of this important sector of the economy if the type of financing has to be done that would be implied by deficits of the order that have been mentioned in some of the figures that I have seen.

Representative CURTIS. Thank you very much.

I might say that my analysis is quite close to yours, as I understand it, and somewhat similar to that of my colleague, Mr. Mills. I have said that I would be for a tax increase but I predicate it on that politically difficult factor that you refer to, namely, cutting back nondefense expenditures. If we have deficits the size of \$30 billion, arguing about the mix of how much new taxes, how much deficit, how much selling off of capital assets frankly doesn't make too much difference.

The deficit itself is the problem and so I have coupled it with the need to cut back nondefense expenditures. This is not for this panel but for the record. The political problem of cutting nondefense expenditures could be resolved very quickly if the President of the United States would pose the fiscal problem straightforwardly to the people through his agents, the Director of the Budget and the Secretary of the Treasury. If it were presented to the people and the Congress, then there would be an inclination on the part of Congress not to grant these increased requests for spending. Indeed, if the President would tell the people, "It is time to tighten our belts," I think there would be a response. Instead I have heard that he still whets the people's appetites for these domestic spending programs. The Members of Congress have a right to think the President is leading us correctly and that, therefore, we don't have to worry about this area of nondefense spending. Here is the political aspect of the problem.

Let me get back now to the economic picture as best I can understand it. This question is to you, Mr. Gaines. I think one of the most