Even the purveyors of nonvintage snake oil that I have been discounting realize that tighter fiscal policy will prevent the raising of interest rates and the unavailability of mortgage credit that bears down so heavily on housing and construction.

In fact, according to their model which I consider to be extreme and deficient, lower interest rates are the only effect that will follow from tighter fiscal policy.

The last point that I mentioned is very relevant for the future and I turn now to counsel for the future.

I judge that the balance of probability favors the view that the resumption of rapid advance will occur in the second half of the year. Since unemployment has stayed lower than any witnesses had forecast for so sluggish an economy, the administration is right to stress the danger that inflationary pressures may again be with us by the last quarter of the year or the first quarter of 1968.

Hence, the case is much stronger now for a 6-percent tax surcharge, or a tax surcharge of some other percentage, to go into effect around the turn of the year, say October 1, or January 1, than was the case last January for a July surcharge or than has been the case for a July date up to this moment.

Your committee was correct in February to listen to the counsels of Professors Tobin, Hansen, and Burns, and perhaps others, who told you to wait on the tax matter.

For how long is the counsel, "Don't fire until you see the whites of their eyes" tenable? Has the time come to form a firm judgment in this matter? Here is my considered opinion.

Although a strong revival is likely, it is still not here and it still cannot be counted on with complete confidence. Even such a matter as an auto strike could change the optimal timetable for a tax change. In Germany and many other parts of the world, what looked like upturns have recently turned out to be disappointing. That could happen here. The Troika experts in government—and I have in mind the various administration economists; and I shall extend that to the Department of Commerce and the Federal Reserve—have a better batting average in short-term forecasting than anyone else. I may add, that is not saying so very much; but it is still a calculated faith on their part that the economy will soon be overstrong.

The mere size of the deficit is not by itself a good reason for raising taxes. We should raise taxes primarily if we wish to hold down private spending on consumer and producer goods, and secondarily to change the mix in favor of construction. The Federal Reserve can easily permit the financing of even a large deficit at interest rates lower than the market now fears if the economy is not overexuberant in the next year. I must warn you against upside-down economics. Indeed, the weaker the economy, the greater the budget, and those people who rely on the wrong reason for raising taxes merely to finance a deficit would then consider the case for a tax increase improved. I and 99 percent of economic experts would argue exactly the opposite. Any large deficit created by weakness of the economy is, other things being equal, an argument against a tax increase rather than an argument for a tax increase. I will add, the greater the budget deficit as a result of weakness, the greater the reason for the Fed to increase reserves and hold down the growth of interest rates.