

fait accompli. I think that there are deferrable items in public expenditure and that the margin and decision should be changed in favor of tightness when the economy is tight.

The chairman might have been out of the room when I expanded on what I detected was asymmetry in the treatment of taxes and fiscal policy in the various reports, and the only marking down I gave, for the nonsequitur was: the economy is too weak to afford a tax increase, therefore cut expenditures. I thought that was bad committee reasoning with some honorable exemptions.

Chairman PROXMIRE. I don't think we said that. If we said that, it was certainly wrong, and I certainly accept that, but I don't think that is what we said.

My time is up, but if Congressman Reuss will permit, I would like to impose on him to ask you if you would comment on the nature of this instrument of a surtax. Is this what you feel would be best? It has the advantage of being neutral, something you can knock down promptly, but is it the best instrument to cope with the kind of economic problem that confronts us of demand which isn't too exuberant but of this liquidity preference problem and the shortage, perhaps, of capital? Is there some other way that we can get at it better? Some other tax instrument or something else?

Mr. SAMUELSON. In my judgment now, and I think I am repeating something that was said in your absence, across the board a more or less equal percentage surcharge of 6 percent, plus or minus, would be an appropriate and rather politically acceptable move if the economy does develop, as many forecasters believe it will, excess demand-pull inflationary tendencies.

This will not take care of the capital problems, and I would hope that the overdramatic word could perhaps be avoided because it drives away thought. The word "crunch" has become so popular a cliché that it is a substitute both for thought and for description of something. We are now using crunch to mean a tightening of money.

The original use was the near crisis which some people thought they detected in the capital markets in late August or September of last year. I wish that more time were devoted to analyzing exactly what that crisis consisted of and what the probabilities of resumption of it would be.

I think there is considerable probability, fractional, not certainty, but considerable probability, that we are going to go all through this once again in the next year or so.

Mr. WESTON. Since corporations have had this same fear, they have built up liquidity. So I think two things are fundamentally different as you look to the fall of 1967 as compared to the fall of 1966: No. 1, you have considerable liquidity already achieved. No. 2, a readiness and apparent willingness on the part of the Congress to enact an increase in taxes which would put less of a burden on monetary policy to restrain any overexuberance in the economy.

Therefore, I am inclined to feel that this great fear, the demand-supply relationships in the money and capital markets would be such that you would get a very substantial rise in interest rates in the autumn from present levels, is unlikely to occur because you have already had a rise to very substantial levels in the long-term rates at this point.

Chairman PROXMIRE. Congressman Reuss?