

caused by increasing costs, and under these circumstances a tax increase not only has some deflationary impact, it always does; but it also is a cost to corporations that tends to be passed on to the consumer in higher prices because of the cost-push nature of this particular inflation we are having now.

I do not mean to get you off the main subject now, but I do not feel that I could resist it.

Mr. BERNSTEIN. I think every point you made is important, and I would like to answer briefly, and I think it is relevant to the balance-of-payments question we have today.

Senator, I was not originally in favor of a tax increase for this year.

In January I said that the Congress has to stay flexible in considering what fiscal policy should be in the calendar year 1967.

My opinion now is that we do need the tax increase effective January 1, and I will tell you why. Every statement you have given proves that it would have been an economic cost perhaps to have had this tax in effect July 1 or October 1.

But in my opinion an economy like that of the United States is not going to have in 1968 such an accidental conjuncture as it had in 1967 of inventory liquidation, a decline in housing, a decline in consumer expenditure on durable goods, a big increase in consumer savings generally. It is very unlikely to have that in 1968 in an environment in which the Government's budget is in such a big deficit.

The truth of the matter is, the deficit of the Government is an enormous expansionary force.

Senator PROXMIRE. But counteracting that is the fact that the big stimulating forces in our economy from 1964 to 1966 were two. One was business investment in plant and equipment. We may or may not be overbuilt, but on the basis of the McGraw-Hill estimates, and the fact we are operating far below capacity, it makes no sense that we should continue to have that kind of expansion, that kind of accelerator effect on the economy that we got from business investment in plant and equipment from 1964 through 1966 when we increased our investment by a smashing 15 percent or so each year.

The other big impact was escalation in Vietnam. That is history.

Mr. BERNSTEIN. That is right.

Senator PROXMIRE. The statistic we now have that the Joint Economic Committee has been getting since the first of August indicates that Vietnam spending is on a plateau—they indicate no stimulating effect from the Vietnam war.

Under the circumstances, it is possible or theoretical that people will stop their propensity to save, that they have engaged in in the last few months which, incidentally, is about the same level they had during much of the fifties, and it seems a more stable pattern—it is possible they will reverse that—even if they do think how far we have to go before we engage our resources to get up to 91 percent of capacity or to use our manpower to put pressure on in such a way that we begin to employ people seeking work in this country.

Mr. BERNSTEIN. Senator, I hope you do not want to get back to the pressures that we had in 1966.

I would be much more content if we were not operating above 90 percent of manufacturing capacity.