

THE COSTS OF INACTION

Failure to act promptly on these tax proposals and to restrain unnecessary spending could have the most serious consequences:

- The Nation could face a return of strong inflationary pressures and an intensified wage-price spiral—which could rob the poor, the elderly, the millions with fixed incomes. We would lose our opportunity to make progress this year toward one of our most urgent objectives: price stability.
- An excessive expansion of domestic markets could again quicken the flow of imports to the United States, while rising costs and prices cut into our exports. The position of the dollar as the key element in the world's financial system could be impaired.
- The resulting distortions in our economy could ultimately endanger the prosperity that generates the jobs and opportunities our men returning from Vietnam have the right to expect.
- Spiraling interest rates and severely tight money would return.

What the Government does not raise through taxes the Government must borrow.

That additional borrowing would be imposed on financial markets already strained by the unprecedented demands of private borrowers and State and local governments. Long term interest rates are already near their peaks of late last summer, and short term rates have begun to climb.

Without a tax increase, I am informed by Chairman Martin that nothing the Federal Reserve System could responsibly do could avoid the spiraling of interest rates.

As interest rates rose, a starvation of mortgage funds would throw housing into a new depression before it had even recovered from the last one. Every other borrower—but most of all the small businessman and farmer—would bear the cost of our fiscal irresponsibility.

A failure to raise taxes would not avoid the burdens of financing a war. For these burdens are inescapable. But, instead of sharing those burdens equitably and responsibly—as an income tax surcharge would do—inflation, tight money, and shortages would tax the American people cruelly and capriciously. The consequences of that irresponsibility would haunt America and its people for years to come.

CONCLUSION

Some may hear in this message a call to sacrifice.

In truth, it is a call to the sense of obligation felt by all Americans.

Americans in Vietnam stand in, and brighten, the light of a proud tradition. They give their service, and some give their lives, for their country—and for us.

To this point, America has served them well by supporting them unstintingly to the last of their needs while building a strong and prosperous Nation at home.

I urge you to remember the following. Last year:

- Real wages were the highest in history—and the unemployment rate reached the lowest point in 13 years;
- Total after-tax real income of American families rose five percent;
- Corporate profits after taxes reached an all-time peak, up nine percent last year;
- Net income per farm increased more than 9 percent, even after adjusting for the higher prices farmers paid;
- Our Gross National Product, valued in constant prices, advanced 5.8 percent.

These gains were achieved without either runaway inflation, or the imposition of the wage and price controls which have been the condition of American life in every conflict of this century.

In significant part, this was the result of responsibility and restraint exercised by the business, farm, and labor communities.

The current situation summons those groups as never before to maintain that responsibility in their wage and price decisions.

It summons all Americans to respond with that same responsibility in the challenge of their own lives.

The inconveniences this demand imposes are small when measured against the contribution of a Marine on patrol in a sweltering jungle, or an airman flying through perilous skies, or a soldier ten thousand miles from home, waiting to join his outfit on the line.