

(The material, referred to here, deleted from Secretary Fowler's prepared statement follows:)

4. To protect healthy economic growth and price stability

As I have already indicated, my judgment as to the necessity for the tax increase program is based on hard fact. I believe the hard evidence we have at hand clearly indicates that the economy is now on an upward course and that an economic recession is not in the picture.

Let me cite just a few of the factors I have in mind:

The growth in final sales (to consumers, to government, and to business for investment other than in inventories) in the first six months of this year exceeded the growth in the corresponding period of 1966—\$31 billion compared to \$24 billion.

The growth of total GNP has been held down, of course, by the inventory readjustment. Considerable readjustment has taken place. Business inventories grew at an annual rate of only one half billion dollars in the second quarter of this year, which is the lowest inventory growth in six years. A return to normal inventory growth will contribute to a faster rise in GNP.

Personal income rose \$3.7 billion in June, the largest rise in the past five months. As personal income has risen, retail sales have become more buoyant. Also the personal savings ratio which has been abnormally high in recent quarters is showing signs of returning to a more normal level.

New construction generally has strengthened and residential housing starts have been rising strongly from the low point reached late last year.

Total manufacturers' new orders for June rose for the fifth consecutive month, to \$46 billion, the highest since the record level of September 1966. Order backlogs are again beginning to rise, and in June reached the highest level so far this year.

The unemployment rate dropped back to 3.9 percent in July after rising to 4 percent in June; the unemployment rate in all categories of workers either declined or remained unchanged. The unemployment rate for married men dropped from 2 percent in June to 1.8 percent in July.

From these and many other related facts which Chairman Ackley will develop in detail in his statement, we conclude that from an economic viewpoint a tax increase is an appropriate and desirable measure. Moreover, it is the best insurance we have against the possible development of an inflationary spiral. I do not argue that excessive growth of demand is the only factor causing prices to rise. But it has been and could again be a major factor, and the one factor that could produce a rapid upward spiral. The restraining influence of the tax increase will thus contribute to stabilizing the level of prices.

5. To protect our balance of payments

Mr. FOWLER. A fifth reason for this tax increase is to protect our balance of payments.

The tax increase will encourage the sound, balanced economic growth that is most favorable to our balance-of-payments positions. Over the period 1961-64 when GNP rose on the average by about 6 percent per annum (money terms), the U.S. trade surplus increased almost \$2 billion, from \$4.8 billion in 1960 to \$6.7 billion in 1964.

Without the tax increase, we run the risk of faster, less well-balanced growth, and increased inflationary pressure. As events of the last 2 years have demonstrated, this can lead to a substantial increase in imports.

In 1965 and 1966, when the gross national product rose at annual rates of between 8 and 9 percent, imports rose by about 15 percent and 18 percent, respectively—far more than exports—with the result that our trade surplus deteriorated steadily from \$6.7 billion in 1964 to \$4.8 billion in 1965 and to \$3.7 billion in 1966.

Expressed as a percentage of the gross national product, imports rose from 2.9 percent, on average, in 1961-64 to 3.1 percent in 1965, and 3.4 percent in 1966.