

(c) *Effective Date.*—Subsection (c) of section 5 of the bill provides that the amendments made by this section shall apply as of the date of enactment of the bill.

The CHAIRMAN. Mr. Schultze, we will hear you next.

**STATEMENT OF HON. CHARLES L. SCHULTZE, DIRECTOR OF THE
BUREAU OF THE BUDGET**

Mr. SCHULTZE. Thank you, Mr. Chairman and members of the committee. In his August 3 message, the President proposed a series of measures which call for difficult decisions on the part of both the executive and the Congress. But while they are difficult, they represent the exercise of responsibility—a responsibility which cannot be avoided if the economic and social health of the Nation is to be maintained.

As the President pointed out, failure to take action to raise taxes and reduce expenditures would produce a fiscal 1968 budget deficit which is clearly unacceptable—unacceptable for four basic reasons:

1. A deficit of \$25 to \$30 billion, with its implications for both Federal and private borrowing, would place such a burden on the Nation's money and capital markets that sharply rising and record-high interest rates would swiftly follow. Even at these high prices, credit—and particularly credit for home buyers—would become less and less available. The recovery in homebuilding from last year's setback would surely be choked off, and indeed, reversed. Over a period of a year we could well lose half a million sorely needed new houses. From the standpoint of economics, social need, and equity, there is no excuse for laying on one selected sector of the economy such a disproportionate burden of financing our efforts in Vietnam.

2. An administrative budget deficit of \$25 to \$30 billion—with its corresponding national income accounts deficit of \$15 to \$18 billion—on top of an economy which is already in the neighborhood of full employment could hardly fail to generate substantial inflationary pressures. No one can forecast the precise wage and price consequences of such a deficit, or the specific sectors of the economy where it would be most severe. But inflationary consequences there would surely be. And once the interaction of rising prices on wage demands and of wage increases on prices is started, it simply cannot be stopped quickly by fiscal action which comes too late.

3. A \$25 to \$30 billion deficit would adversely affect our balance of payments, encouraging a rise in imports and discouraging our exports. Again, no one can give an accurate estimate of the magnitude of this effect. But its direction is clear.

4. Finally, failure to act responsibly would worsen the major social problems of our cities and for many of our poorer citizens. While the very poor are not the primary buyers of new homes, they are affected by a slowdown in new home construction. A slackened pace of new home construction tends to reduce vacancy rates, raise rents, and block the upward movement of the poor into better houses. Many of the poor live on fixed incomes—welfare payments or small pensions—whose purchasing power is eroded by rising prices. The investments of State and local governments in much-needed public facilities are retarded when interest rates rise sharply and credit becomes scarce.