If these assertions are correct, and I gather they are because they coincide with the indexes that the Chairman cited, why can't the economy withstand a substantial increase in demand without over-extending itself?

Secretary FOWLER. I have the same letter, Congressman Byrnes, and I can just shorten this by telling you how I replied to it.

Mr. BYRNES. Yes; that would be fine.

Secretary FOWLER. I certainly agree with your point that there is not a perfect relationship between demand growth and price movement, as evidenced by the fact that consumer prices, other than food, have increased more this year than in the first half of 1966 despite a slowing down in the growth of demand. At the same time, however, we must recognize that the influence of demand does work in part with a lag effect, so that price developments this year are partially a reflection of rapid demand growth in 1966. Moreover, the transmission to retail prices of the higher level of wholesale prices which developed during 1966 has certainly been facilitated by the continued basic strength of demand forces. Indeed, the growth of final sales during the first half of 1967 has been greater than in the corresponding period in 1966.

It seems to me, therefore, that the greater part of wisdom lies not in downplaying the importance of demand factors, but in remaining aware that the problem of price stability may be seriously aggravated by a renewed upsurge of demand and by shaping our fiscal measures accordingly. The temporary tax increase program recommended in the President's message will, I believe, contribute to price level stability and be quite compatible with a generally strong economy.

I want to emphasize that I consider the temporary tax increase as a necessary measure to finance the special costs of Vietnam, to keep our Federal deficit to within tolerable emergency limits, and to hold down interest rates and prevent a recurrence of monetary stringency. Incidentally, by averting a sharp rise in interest rates, the tax increase will make a specific and direct contribution to keeping down the cost of mortgage financing which you cite as a major element in the price increase of 1966 and 1967.

Mr. BYRNES. Maybe the individual who wrote the letter will be more satisfied with that reply than I am.

Secretary FOWLER. I doubt it, Mr. Byrnes.

Mr. BYRNES. How much of a demand can the economy take? If you do everything that you talk about in your statement, we are apparently going to have a $14 to $18 billion deficit. The pressure of a $29 billion deficit is certainly greater than a $14 or $18 billion deficit, but if we are on the verge of great price pressures, why are you dealing with partial measures?

Secretary FOWLER. No; I think you underscore, Mr. Byrnes, by that question the importance of having the full 10 percent on the time schedule indicated because——

Mr. BYRNES. But why is what I am asking you.

Secretary FOWLER. I think it is what is needed. Of course, there could be some debate about whether or not a 12-percent or a 14-percent tax could be more appropriate. We recognize that there is a range here of uncertainty about expenditure estimates, but we think that the 10-percent increase is the appropriate one, certainly if the expendi-