

On one hand they said, "Well, this is going to help the economy. This is going to get us on the right road. This is going to correct the deficits."

This was going to do all this when you were advocating a reduction in taxes and now we find that the same arguments are being used for an increase. We are sitting here as ordinary men, and not being an economist I am concerned about some of the statements that have been made here.

In fact, I recall one of the economists that appeared here and I asked him the question what would happen if we reduced the taxes and increased Federal spending and the economy continued on a decline, "What would you do then?"

He said, "Well, I would come in again and recommend a further cut in taxes and increase the spending."

That seemed to be the theme at that time. Now, this isn't the theme that was presented to us yesterday and I would like to know where the change is and why.

Secretary FOWLER. I think it is a very good question, it is a very pertinent one, and one that we receive frequently. I would like to try my hand at it. Chairman Ackley covered it in some depth in his statement yesterday. But as I look at it—I was here in 1963 before this committee advocating the tax reduction bill as an answer to the economic problems of the time and I felt very strongly then and feel very strongly now that the reduction of overly high tax rates at that time was a desirable, and proper, and necessary measure to move the U.S. economy out of the state of relatively sluggish growth which had characterized the economy for the previous 5 years or so. Now, since 1963 the situation has changed markedly.

For the last three and a half years the underlying economic and financial picture has been quite different. In late 1963 when this committee was considering that tax reduction program, although there had been, I would call it, a very moderate expansion, the economy was still underemployed and the growth in demand which had characterized the early years of the expansion, 1961 and early 1962, was becoming sluggish. Indeed the unemployment rate was about five and a half percent, and business fixed investment was only a little more than 9 percent of the national output, despite the fact that the year before there had been the investment tax credit, and the change in the depreciation practices which was encouraging to investment. The growth in the U.S. economy and output still lagged far behind what was necessary for a full use of our resources and indeed the rates that characterized the economies of other comparable industrialized countries.

Now, three and a half years later we face an entirely different environment. We have had during this period of three and a half years since the enactment of the tax reduction act a very dynamic, fast growing economy in which for the greater part of that time the unemployment rate has been steadily reduced until it reached 4 percent or fractions thereunder.

The range was between three and a half and 4 percent and it has fluctuated in that area for the past year and a half. In some of that period of time there have been some shortages, particularly of skilled