

labor. Business fixed investment which had been fairly static during the 5 years up to 1962 and 1963 has surged well up in the intervening years, and despite some recent tapering that we are familiar with by reason of our suspension of the investment credit, is still nearly 10½ percent of national output as against 9 percent 3 years ago and that is a very much more favorable level.

Indeed, every year a large amount of new industrial capacity is coming into the economy and productive capacity is expanding at a rate of between five and a half and six and a half percent a year, whereas prior to 1963 it had been relatively static.

Again we have the problem of interest rates which I referred to yesterday, which at that time were on a much lower scale and which in the past year have reached 40 year highs and after falling back slightly in the winter are now climbing again.

Growth in U.S. output in recent years has been very rapid and at times has pushed hard against our productive potential and created inflationary strains, moving us out of the period of relative price stability that characterized 1959, 1960, 1961, 1962, 1963, and 1964. We think, therefore, that the main danger for the economy as it looks ahead is not the sluggishness or that slack that characterized the years preceding 1963, but the danger of inflationary pressures on prices and of excessive demands in the credit market, and that a temporary tax increase during the period where there is this heavy additional demand on the budget—in excess of \$22 billion a year for the costs of Vietnam—can be in a sense partially compensated for.

Congressman BURKE, that in a short way is the difference in the rationale of why a tax cut in 1963 was the right proposal and why a tax increase, indeed a moderate one on a temporary basis, is the appropriate step at this time.

Mr. BURKE. I just have two more questions to ask of you. I am not going to belabor that point and I will accept your statement although I don't agree with it thoroughly.

Actually what the administration is doing is requesting a restoration of some of the cuts that me made in 1963. In other words, looking over this chart of taxes the people will be asked to pay, the individuals will still be paying a lower tax under this tax proposal than they were before the cuts were made in 1963. Is that true?

Secretary FOWLER. They will be paying a lower tax than they were paying before the cuts in the act of 1964, that is right.

Mr. BURKE. In reference to corporations where we reduced the tax from 52 percent to 48 percent, how will this line up there with the 10 percent surtax? Will the corporations be paying less taxes than they were prior to the 1964 act?

Secretary FOWLER. Slightly more. I think about 52.7 or 52.8 percent, between 52 and 53 percent.

Mr. BURKE. Mr. Chairman, that is all I will ask for now.

The CHAIRMAN. Mr. Byrnes had not completed his inquiry at the end of the session yesterday. Mr. Byrnes.

Mr. BYRNES. Mr. Secretary, these questions are without prejudice or prejudgment of what we should do with respect to the overall matter of tax increase. Do I get the impression that you feel that Congress is champing at the bit to increase taxes?