

Mr. BETTS. It just seems to me that if this is serious, and you say it is, then this is the time to have a get tough policy on expenditure reduction. I see no indication of that in your presentation.

The CHAIRMAN. Mr. Vanik.

Mr. VANIK. Mr. Chairman, I see that Secretary Fowler has had to leave for another appointment, so I shall propound my questions to Assistant Secretary Surrey.

The CHAIRMAN. Very well.

Mr. VANIK. Mr. Chairman, I consider tax justice one of the hallmarks of good civilization. I think that there is a definite relationship between the underdeveloped countries of the world and those that have a more equitable tax structure.

The people of my district will rebel at any kind of tax increase, but they will rebel more about things that throw them out of line. They complain about cases they read where people with large amounts of income escape taxation.

In your opinion, does the surcharge tax method have any effect upon our search for tax equity?

Mr. SURREY. It has this effect. If one is looking for a method of increasing taxes on a temporary basis, that is as fair and equitable as possible considering the existing structure, then the surcharge method accomplishes that result.

That was the finding of the Subcommittee on Fiscal Policy of the Joint Economic Committee. If, on the other hand, you ask, does the surcharge method in and of itself do anything to cure what some people will call defects, depending on one's particular point of view, then the answer would have to be no.

On the other hand, as the Secretary indicated in his statement, the matter of structural defects in the law which should be corrected on a permanent basis, corrected for all time, is something that he thought certainly should be dealt with and indicated the President was sending a message up to that subject later in the session. The Secretary indicated that the subject matter was so different that the two should be dealt with at different times.

Mr. VANIK. If we adopt the surtax, does this expand or contract the advantage of income tax deduction or exemption to those who enjoy these privileges? Does it widen the gap?

Mr. SURREY. I think it about leaves the system essentially where it is today.

Mr. VANIK. Those people with exempt income or with good deductions are better off and the rest of the people are paying more. Is that logical?

Mr. SURREY. To the extent that the tax rates have been slightly increased it would do that.

Mr. VANIK. I would like to ask if it is possible to determine how much personal income in dollars avoids taxation through the exempt income route? Do you have any idea on that?