

gence which the administration foresees will occur so soon, nor in the magnitude suggested by the tax surcharge proposal.

It is for this reason that Dr. Madden is with me today in order to answer any questions members of the committee may have as to the way the business economists view the current economic situation.

The national chamber favors deferring a tax increase until it is substantially more certain than now that there will be a major upturn in the economy and inflationary pressures are more apparent. We believe it would be ill-advised to attempt to raise revenues by a tax rate increase when such a rate increase might well result in an actual reduction in revenues.

UNRELIABILITY OF ECONOMIC FORECASTS

The administration's economic forecasting in past has not been such as to inspire confidence in considering so delicate a question as a tax increase. The Council of Economic Advisers' forecast last fall of a continued investment boom is a case in point.

The resulting proposal to suspend the investment tax credit and accelerated depreciation allowances, we believe, was ill-advised and we so testified at that time. The suspension came at a time when the economy was actually in the midst of a readjustment, involving a sharp decline in housing construction, a substantial rise in the consumer savings rate, and a sizable pileup of business inventories.

The economic case for the surcharge proposal, as we understand it, rests on the correctness of the official forecast of economic activity in the near term. A crucial question, therefore, is whether the current rise in the economy is strong enough to withstand a tax increase. We believe additional time and study are needed before this can be determined.

TIMING OF AN INCREASE

Timing is of critical importance. Here, the record since the Vietnam escalation in mid-1965 does not justify optimism that the timing of fiscal policy moves recommended by the administration can be accepted without question.

Last January, as the economy was slowing down, the administration assured the Nation that a just-right budget deficit of \$8 billion required a surcharge increase by midyear of no more and no less than 6 percent to prevent inflation.

But even as the 6-percent tax proposal was being considered by the Joint Economic Committee, economic conditions showed that the investment tax credit should be reinstated.

In our judgment, administration economists, again, have not accurately judged the timing and impact of a tax proposal on economic events. Business economists though generally conceding that, if the economy is in for a real upsurge in the coming months a tax increase might be needed, generally have held to the view that the expansion in the economy will be slower coming and less ebullient than the administration has contended.

As we understand it, even the economists principally responsible for the 1964 Revenue Act rate reductions have not endorsed the present tax increase proposals.