

Administration economists, in calling for a tax increase, have failed in our judgment to take sufficiently into account the rise in output capacity. Production has risen and the fruits of the investment spending boom of 1963-65 should result, if not impeded, in steady additions to productive capacity. Administration economists have also failed, in our judgment, to take into account the elasticity of the labor force which the overall unemployment rate does not reflect.

Finally, and most basically, they have overlooked the damaging effect of a tax increase on consumer and business psychology.

The case has not been made that a tax hike is needed to avoid what the President has called the clear and present danger of "brutally higher interest rates and tight money." The conditions for credit markets in 1968 are in the views of the business economists, likely to be quite different from conditions in 1966.

This year's expansionary monetary policy has increased the liquidity of banks and other financial institutions. The first-half expansion in the Nation's money supply at a 6-percent annual rate, and of bank credit at an even faster 11-percent annual rate, has restored liquidity and brought short term rates to well below last year's peaks.

Treasury use of tax anticipation certificates can tap this liquidity, and a rise, to some extent, in short-term rates would be helpful for balance-of-payments reasons without threatening to precipitate another drainage of funds from savings and loan associations into market instruments as happened last year. Dr. Madden can comment on this in more detail if the committee wishes.

The proposal for a tax increase cannot be justified as simply a war-time measure. The deficit projected results from both nondefense and defense expenditures. Nondefense expenditures have been increasing as fast, or faster than, defense expenditures. From fiscal year 1963 through fiscal year 1967, nondefense expenditures rose from \$39.8 to \$55 billion or 38 percent. Defense expenditures rose from \$52.8 to \$70.7 billion, or 34 percent.

#### TAXPAYERS ARE WILLING TO FACE FISCAL BURDENS IF NEEDED

Taxpayers have always shown their willingness to face fiscal burdens where the need has been demonstrated. But taxpayers have grown cautious of a stop-go economic policy. Their skepticism of Great Society programs has grown this summer in the wake of riots in the cities. No amount of Federal spending can solve all of our problems immediately. Some programs may have to wait until we are again at peace in Vietnam. Priorities must be established.

If the taxpayers are going to bear an increased tax burden, they have the right somewhere in this discussion to ask also about future tax rate reduction. Burdened by increasing State and local taxes, they are now being asked to bear higher Federal taxes.

Can the country ever hope to live within its revenues? Is it not somehow possible, long-range, to manage on the tax revenues which can be produced under the 1964 rate schedule in an expanding economy? Cannot, perhaps, some hope be held out to taxpayers that we can get back on the road to tax rate reductions—the road we saw ahead of us in 1964?