With Dr. Heller a few years ago and members of his school, one of our problems was the absence of any concern about deficits, and the President's school of new economists still say you don't have to worry about the Federal debt because it is a less percentage of gross national product and so on.

I am leading up to the point that we have reached a critical situation where the administration, as shown by its policies and its witnesses' presentation, and as Mr. Ullman has ably stated, obviously just doesn't believe there is anything fundamentally wrong in the deficit itself because they keep talking about "where-would-you cut?" rather than why is a balanced budget necessary.

I think you stated, Mr. Madden, that when business finds that they have to balance their budget they just balance it. The difference lies in the fact that the President doesn't think balancing the budget or even approaching a balanced budget is economically necessary. This is a perfectly respectable position, but let the President admit it.

I spent last week trying to go over in detail with the Director of the Budget Bureau items where the budget could be cut. Very clearly it can be. The difference lies in the fact that the administration's fiscal experts don't share this concern.

Now I am coming to a basic point that I want to pose here. We can just sit here on this committee, and Congress and the executive can just do nothing. If so, I can assure President Johnson there will be a $7 billion cut in his expenditures in fiscal 1968 of a projected $144 billion; at least $7 billion.

It will be a meat-axe cut. It will be the cut imposed by inflation. Last month the consumer price index went up 0.4. If the consumer price index (the measure of inflation) goes up five points, there we have the $7 billion. That comes out of the hide of the lowest income groups in our society, out of the welfare programs and out of the guts of defense in Vietnam.

As I understand the administration's theory behind the tax increase, they think that increasing the tax rate will minimize these inflationary forces, but I know no economist who doubts that the inflation that we are experiencing right now, as registered in the consumer price index, is cost-push inflation.

This isn't demand inflation. The falloff in industrial production demonstrates this isn't demand inflation. This is cost push. And if it is cost push we can have the unique combination of inflation and recession. In fact, we have had inflation and have reached this downturn.

You can have less revenues at a higher tax rate. It is the deficit that is going to increase, I would say, this cost push just as much even if it is financed by a tax increase because at least the corporate tax becomes a part of cost and is passed on, as it has to be, to the consumer in increased prices.

We have already increased costs through the payroll tax, and social security tax if that goes through. It may be a necessary expenditure, but, nonetheless, this becomes a cost item. Interest rates are part of the cost push, and here there is a very serious situation. The administration puts that aside and says nothing can be done about the interest rates we are paying, an increase of $2 billion from 1966 to projected 1968, from $12 billion to $14 billion.

One-half of that is from the increased debt, it is true; but the other half is from increased interest rates. The Secretary of the Treasury