on both inflationary consequences and on the amount of Government competition with private users of credit for available supplies.

The second consideration is that even a moderate temporary surcharge would be of substantial significance as regards release of credit for private use. As an indication of the magnitudes here, the average annual increase in business borrowings from banks for the 5 years ending with 1966 was somewhat over $5 billion, or roughly the annual yield expected from a 6-percent surcharge.

EFFECTIVE DATE

Mindful of the view that the President's program was sent up too late to permit enactment of a surcharge to be fully implemented by October 1, and believing that his entire program even if justified would be entirely too much to process to enactment in such a short period of time, I yet have not been able to escape the conclusion that if a temporary tax increase is needed, and we believe it is, then the need is current and not prospective. We think the President's program asks too much of taxpayers, first in the extra burden which would be placed on corporations, and second in the rate of surcharge, but we do believe the facts presented to you by Secretary Fowler and Chairman Ackley indicate the need for quick action on a moderate and uniform surcharge. However, we believe the scheduled termination date should be December 31, 1968, instead of June 30, 1969, as proposed by the President.

Expedited enactment of a temporary surcharge would begin the transfer of income from the private to the public sector when the Federal deficit is running at its highest rate, and before demand in the private economy has reached an inflationary level. The old adage "A stitch in time saves nine" is apt as regards both timing and size of a surcharge.

EXPENDITURE REDUCTION

The President's program indicates a range of tolerance for a deficit in the administrative budget from $18 billion down in the current fiscal year, and his tax program as a whole is designed to close most of the gap between the potential and this tolerable level of deficit. In our opinion, a much greater burden should be placed on expenditure reduction and control. It does seem logical that quick action in moving a moderate surcharge toward enactment would make more evident the major job that remains to be done as regards expenditure reduction and control. As a rough guide, it seems the Congress and the executive branch together should find ways and means of reducing expenditures to roughly approximate the amount of new revenues coming from a tax increase—beyond the items mentioned in the testimony presented by Budget Director Schultze last week.

Among other virtues, a balanced program of a moderate temporary surcharge with matching reduction and control of expenditures would provide the best assurance that we will get on with the job of using revenue growth to reduce taxes at the earliest possible time.

In conclusion, Mr. Chairman, may I make a general observation?