We believe that the temporary surtax rate on corporations should be at least twice as great as on individuals. Low-income taxpayers should be exempt from any surtax and the temporary tax increase on other income groups should be based on ability to pay.

We recommend some degree of taxation of excluded income; those large sums that are not now subject to taxation, such as interest on State and local bonds, the excluded half of capital gains and depletion allowances.

Moreover, we urge you to give careful consideration to a substantial increase in the maximum tax rate of 25 percent on capital gains from the sale of property.

In our opinion, Mr. Chairman, the war tax you are now considering must be fully keyed to ability to pay.

We are aware that some people have suggested cutting or halting vital domestic programs as an alternative to a temporary tax increase. If put into effect, such suggestions could be disastrous and we unalterably oppose them.

We are convinced that America can meet the Nation's obligations in Vietnam, while making progress toward solving its domestic problems. Forward strides on the homefront are essential to the preservation of our free society. America has the human and material resources to achieve both an honorable settlement of the war in Vietnam and a strengthened social order at home.

A TEMPORARY TAX INCREASE IS NEEDED

This Nation, Mr. Chairman, could easily finance a greatly expanded domestic program, within the present tax structure, were it not for the war in Vietnam. It is the added cost of men and material for that war which makes a temporary tax increase necessary.

Such tax increase is a war tax—necessitated by the sharp rise, within the past 2 years, in the size of our Armed Forces and in military expenditures. This tax rise envisions a degree of sacrifice by the American public, not only our fighting men.

A tax increase in a war period is not strange to the American people. Although no American hails a tax increase on his income, we have willingly paid increased taxes for the defense of freedom in earlier years. I have confidence in the good sense of the American people to believe that we will do so again, at present.

The need for a temporary tax increase rests on sound economic, as well as moral grounds. National defense expenditures have risen $20.5 billion between fiscal year 1965 and the year that ended June 30, 1967. They are rising at present. In this fiscal year, defense spending is expected to rise another $5 billion to $9 billion and perhaps more.

Mainly as a result of these rising military expenditures—coupled with the effects on tax revenue of the recent economic slowdown, due to last year's tight money—the budget deficit is increasing. The administrative budget deficit in fiscal year 1967 was about $10 billion—substantially greater than the modest deficits of the previous 2 years. Now, this deficit looks like it is rising to $20 billion to $25 billion or more in the year ending June 30, 1968.

It is not the existence of a budget deficit which troubles us, Mr. Chairman. With remaining problems of unemployment and underem-