

different economic groups, and especially on those living on pensions or fixed incomes, inflation has been rightly described as "the cruelest tax of all."

In addition to the hardships that inflation would work upon the domestic economy, rising price levels would lead to further deterioration in our balance of payments by worsening our competitive position in world trading markets.

In considering a program of fiscal actions to reduce the impending deficit, we would urge the Congress to use a balanced approach, with close attention both to the level of nondefense spending and to the amount of increased taxation that will be needed.

In his budget message of August 3, the President has stated that he is "directing each department and agency head to review every one of his programs, to identify reductions which can be made and to report to the Director of the Budget in detail on the actions he is taking to put those reductions into effect."

We are hopeful that such a review can achieve significant results, and would urge the Congress to likewise consider the pressing need for cutbacks in the expenditure programs that are currently pending, in the recognition that the inflationary implications of the prospective budget deficit arise from the high level of Federal expenditures and not just from the shortfall of tax revenues.

We fully recognize that spending reductions are not easily achieved. However, judicious trimming of less essential programs, along with postponement of public works outlays that are not critical in a high-employment economy, should permit a substantial decrease in fiscal 1968 spending totals.

Furthermore, the announcement of specific programs for expense reductions would be of material help in dampening speculative activity based on anticipated inflation, even if the normal operation of budgetary, legislative, and administrative procedures might mean that much of the savings would not be evident until future budgets.

The life insurance business believes that a tax increase is an unavoidable necessity at this time, and that a temporary uniform surcharge on both corporate and individual income taxes is an appropriate approach under present circumstances.

We would urge the Congress, in reviewing the administration's tax proposals, to consider the following points:

1. Legislative action on a tax increase should be prompt, in order to correct the present revenue imbalance and also to remove uncertainties in the business community and the financial markets as to the nature and extent of the tax increase.

2. While we have no way to evaluate a surcharge of 10 percent, as against some other percentage, the general magnitude of the proposed tax increase—that is \$7½ billion in fiscal 1968—appears to be suitable in the present situation, so long as such an increase can be accompanied by reductions in Federal expenditures.

3. In the interest of fiscal equity, it would be desirable for the surcharge to take effect at the same time and at the same percentage rate, for both corporations and individuals, and at the earliest prospective date.

4. The form of the tax increase should be temporary in nature in order to avoid adverse effects on long-term business planning, and should not be used as a basis for increased Government spending.