

5. The application of the temporary surcharge should be kept simple and uniform, without the introduction of exemptions or complexities which aim at structural tax reforms.

For example, the proposal to exempt individual taxpayers with incomes falling entirely in the two lowest brackets would conflict with the basic principle that tax burdens should be shared by a broad base of the American public, especially when revenues are needed to cover outlays for the national defense.

Furthermore, this exemption would depart from the principle that all people pay the same tax rate on the same bracket of income, and would introduce a structural change in our tax system which should not be attempted in an emergency tax measure not without extensive debate.

A major objective of the proposed tax increase and spending cuts is to reduce pressures upon an already overburdened capital market. Failure to reduce the \$29 billion deficit now in prospect could lead to spiraling interest rates.

The life insurance business believes that early action to correct the budgetary situation is necessary to avoid a recurrence of the extremely tight financial situation which developed in the summer and fall of 1966.

However, it does not appear likely that the proposed tax increase would bring an actual decline in the present high levels of long-term interest rates, in view of the heavy demands that are in prospect for private long-term financing. Early implementation of the administration's budget proposals would alleviate upward pressures on interest rates by reducing the Treasury's fiscal 1968 borrowing needs to more tolerable amounts.

At the same time, it should be pointed out that two features of the administration's tax proposals, though they would trim the administrative budget deficit, would not relieve total borrowing pressures in the capital market by the full dollar amounts involved.

First, the proposal to restore authority to issue \$2 billion in participation certificates would merely substitute such issues for an equal amount of regular Treasury borrowing, with no reduction in total demands in the financial markets.

Second, further acceleration of corporate tax payments would cut into business working capital by an estimated \$800 million. However, corporations would seek to restore their working capital by increasing their demands on the long-term capital market. This response would shift pressure onto the corporate bond market and away from the short-term market where the Treasury would otherwise borrow.

To summarize briefly, it is our view that a temporary uniform surcharge on both corporations and individuals is an unavoidable necessity to bring the Federal budget under control. Prompt action is also needed to simultaneously reduce Federal expenditures and hold down the deficit in order to lower Treasury demands upon the money and capital markets and curb inflationary tendencies in the economy.

Thank you, sir.

The CHAIRMAN. Thank you, Mr. Wright and Mr. Fefferman, for coming to the committee and giving us these views that you have expressed.

Are there any questions of these gentlemen?

Mr. SCHNEEBELI. Mr. Chairman.