

The CHAIRMAN. Mr. Schneebeli.

Mr. SCHNEEBELI. Mr. Wright, in your capacity as an economist I am asking this question. What is your appraisal of which way the economy is trending? We have conflicting testimony that it is going sideways, it is going up with vigor, and so forth. What do you think about which way the economy is going to be going in the next couple of quarters, because this of course will have influence on the committee's decision?

Mr. WRIGHT. We thought about this question and this would be our view on the matter. First of all, there is a choice to be faced. Looking ahead it is always difficult to see exactly the trend of the economy, but the choice lies between cutting back on Federal pressures and the Federal deficit that stimulates the economy as against allowing such very sizable deficits and demand pressures to run the risk of inflation.

Mr. SCHNEEBELI. We recognize this alternative, but, nevertheless, we would like to have some confidence in the fact that the additional taxes are going to be based on a rising economy which is better able to take it and we would not like to think that the taxes would cause a temporary recession because the economy isn't healthy enough to take a tax increase.

Do you have any analysis of this?

Mr. WRIGHT. Yes. Let me approach that in this fashion. While the economy has been rising less rapidly, it is still rising. A good deal of the slowing process has occurred in the inventory field where adjustments were called for. In the view of a great many economists these adjustments in inventories are now largely behind us and that portion of drag on the economy may not be such a large factor in the next two quarters, the third and fourth quarters.

Therefore, our appraisal would be that the economy is essentially healthy and strong. This has been our background in thinking that a tax increase of the magnitude proposed would not tip us into a downturn for the total economy.

Let me also point out that if the full proposal of the President is implemented we would still be left with a budget deficit of \$14 to \$18 billion, which itself is one of the largest deficits we have had for the entire postwar period and a very strong continuing expansionary influence on the economy even at that reduced level.

Mr. SCHNEEBELI. Would you say the economy is going upward in the third and fourth quarters? We are already about two-thirds through the third quarter. There doesn't seem to be any robust increase that I can see.

Mr. WRIGHT. There have been some significant upturns in a number of key areas. I can cite the turn up in industrial production. Housing starts have moved up very strongly. Personal income is continuing to rise strongly. Order backlogs are up in the latest reports. I think that we may now be facing a situation in which easier money, which began some 8 or 9 months ago, is beginning to show quite an effect from the turnaround of last summer and fall, plus the fact that the inventory adjustments are now not as great a drag as they had been.

Mr. SCHNEEBELI. Thank you very much.

The CHAIRMAN. Any further questions? Mr. Battin.