Substantial increases in State and local taxes, together with a probable increase in the social security tax, will further reduce corporate earnings and cash reserves in the future.

At the same time we are acutely aware of the sacrifices being made by our servicemen on the battlefields of Vietnam. It is essential that our Armed Forces be provided with all resources which are necessary to bring that conflict to an honorable and just conclusion within the shortest possible period of time.

Similarly, we recognize that certain prior financial commitments, such as those for interest on the national debt and for previously approved projects, cannot be eliminated from present budgets.

These commitments, of necessity, create limiting factors on the ability of the administration to curtail spending.

Nevertheless, it must be recognized that in recent years nondefense expenditures have risen at an alarming rate, and Government civilian employment has substantially increased in the past 3 years. This spending fueled the inflationary fires at a time when industry and labor were being asked to practice restraint.

In view of these factors, before any tax increase can be justified, it is incumbent upon both the administration and Congress to scrutinize meticulously current appropriation requests and expenditures in order to eliminate waste and to hold down expenses wherever feasible.

In this connection we applaud the administration's announced efforts to eliminate $2 billion of expenditures from the nondefense portion of the budget.

However, we do not feel that this action goes far enough. As we indicated earlier, the administration should make a substantial effort to effect a percentage reduction in nondefense spending equivalent to the percentage of surcharge imposed on the public.

Without specifically terminating some of the projects which have been determined essential on a long-range basis, efforts should be made to extend or defer such projects over an additional period of time in order to draw out, and thus reduce, current expenditures.

President Johnson's message of August 3 and the testimony of the administration's representatives last week indicate the dangers inherent in creating deficits of the magnitude stated therein. However, the President's proposal for a 10-percent surcharge recognized that a substantial portion of the deficit will remain with us despite the proposed increase in taxes.

Our association is keenly aware of the inflationary effect that substantial deficits might have on the economy and fully endorses all efforts directed toward its reduction. It fully recognizes that serious attempts at curtailments of expenditures probably will not be adequate to eliminate deficits of the magnitude which the President has predicted and that increased taxation is unhappily necessary.

Thus, the Manufacturing Chemists Association would like to take this opportunity to endorse the President's proposal for a surcharge with the following suggested modifications:

1. Any surcharge enacted should be of limited duration with a definite termination date.

The economic improvement following the enactment of the tax reductions contained in the Revenue Act of 1964 provides substantial evidence of the economic benefits flowing from lower taxes.