

Yet, the administration's approach to our economic dilemmas is unpromising from the start. Its request for a 6-percent tax surcharge is based on the assumption that economic activity will slow in the first half of the year but resume a strong rise in the second half, with 4 percent real growth for the year as a whole.

The opinion of many private economists is that real growth will total much less than 4 percent and that the pattern of the advance will be just the opposite to that predicted by the administration. Many private economists believe that activity will continue its rise in the first half of the year, and then level off in the second half as suspension of the investment tax credit discourages business spending and as defense outlays, hopefully, taper off.

Even more to the point, the tax increase seems solely designed to offset the inflationary impact of the large increase in social security benefits requested by the administration. Since some increase in social security benefits is likely to be passed by the Congress, while the fate of the tax surcharge is in doubt, the budget could well be more expansionary than already planned.

If fiscal policy is expansionary—even with a tax increase—how does the administration hope to stop inflation? It accepts the likelihood that wage settlements will exceed the guideposts this year, as they did in 1966. In fact, settlements could well exceed the 5 percent pattern of advance recorded last year, in spite of the administration's plea that labor not try to compensate for all of the increase in prices.

Business is supposed to provide the first line of defense against inflation by absorbing cost increases and shaving profit margins. But consider the current and prospective pressures on profit margins. With the growth of sales slowing down, there will be little or no increase in pretax profits this year, and profits in the fourth quarter of 1966 already appear somewhat disappointing. Business also has lost the investment tax credit and accelerated depreciation in buildings; it is paying higher payroll taxes for social security this year, and major boosts are in store next year; the President has asked for further accelerated taxpayments on top of a corporate tax increase; and finally there is an 11-percent increase in the minimum wage this year.

Is it realistic to hope that business can absorb further cost increases? With business spending for plant and equipment already weakening, too great a squeeze on profits could lead to a capital goods recession that could spread throughout the entire economy.

The following other contradictions in the administration's policies should be noted:

First, the administration believes that interest rates should be lowered in order to correct the distortions and imbalances which arose from its high interest rate policy of last year. Yet based on conservative estimates, it proposes \$9.4 billion in regular Treasury borrowing, net agency borrowing, and participation sales. The result of these Federal activities in the financial markets will make it difficult, if not impossible, to lower interest rates by any meaningful amount.

Second, if the administration is successful in reducing interest rates, it is likely to create a further deterioration in our balance of payments this year in the absence of a sounder fiscal policy. The administration's goal to lower interest rates, while desirable on domestic grounds,