other commentators on past actions who point up a very significant fact; namely, had we done last year what apparently is being advocated now we might have very well added too much restraint to a private sector which already had a substantial number of soft spots. And these soft spots developed even without the restraint of an income-tax increase last fall.

The statement also deals with the respective positions of the various analysts during the course of this particular period, how the early flush of many for an additional tax increase in March and April quickly paled by June when the returns on housing, automobile sales, and other fronts came along. It recounts the signals of the slowup in the private sector during 1966, and concludes with a series of questions which I think support the position I would certainly take.

1. Would additional restraint, say, an income-tax increase effective in mid-1966 over and above other fiscal increases taken, and the strong monetary policy measures then in being have involved the risk of a recession in late 1966 or early 1967?

I think the answer is clearly "Yes."

2. Would you approve in retrospect adding sharp fiscal restraint to the movement to sharp monetary restraint that characterized 1966 up until October?

I think not, if you were a responsible public official.

3. What assurance would you have had that the Federal Reserve System would have shifted its policy from increasing restraint to the direction of ease in the spring or summer of 1966, if the President had proposed a general income-tax increase?

None, since neither the President nor the Secretary of the Treasury could guarantee congressional passage of a general tax increase had one been submitted. Therefore, there would have been every prospect of an income-tax increase becoming effective when the full effect of the monetary restraint was being felt by the private economy.

4. Even if that delicate arrangement had been effected through coordination of the Federal Reserve System and the Congress, how would you have been sure that the move toward monetary ease would have had sufficient time to free up the private sector of the economy so that it could absorb the restraint of an income-tax increase without a serious risk of recession?

You could not be sure, and you would have had to conclude that imposing an income-tax rise on an economy stretched rigid by monetary policy would have run a serious risk of inflicting damage much greater than any of your other risks seriously threatened.

Happily, that risk is no longer present since the Federal Reserve System had already shifted last fall from a policy of rigid restraint to the direction of ease. Thus, hopefully, the surtax proposal can be appraised this spring in the context of an economy long removed from the monetary stringency of last year.

Thank you, Mr. Chairman.

(The portion of Secretary Fowler's supplementary statement not read to the committee follows:)

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So I welcome this opportunity to comment on the current folklore that the U.S. Government "made a mistake" in not raising taxes early in 1966.