Republicans insisted that the tax cut should be accompanied by reductions in the administration's proposed spending, and time has proved the wisdom of that position. If spending had increased in the past 2 years as rapidly as in the 1961–63 period, the inflationary overheating of the economy would have occurred much sooner and would have been more severe. In fact, it is likely that tax cuts accompanied by rapid expenditure increases would have resulted in more serious inflation before the achievement of 4-percent unemployment. It was not until the administration stepped up its level of spending last fall that overheating of the economy began to appear.

Congress Should Exercise Restraint

We also urge the Congress itself to exercise restraint in considering the administration's 1967 budget requests. There may be selective cases when the Congress will increase administration requests. If so, these should at least be balanced by reductions in other areas.

Above all, we hope that discussion of expenditure deferral until economic conditions are more favorable will avoid the emotionalism that generally surrounds appeals for expenditure restraint. No one believes that the underprivileged in our society should bear the costs of the Vietnam war. But neither can anyone doubt that numerous programs of marginal value to our society can be slowed down without harm to the national interest. In some cases, a less rapid and more carefully considered buildup of Great Society programs would avoid the redundancy, inefficiences, errors and controversy that accompany well-meaning efforts to do too much too soon. We would also remind the administration that—in the words of the minority members of the Ways and Means Committee—"we cannot win the war on poverty if we lose the war on inflation."

Whether a tax increase can be avoided depends upon monetary policy, debt management policy and a change of heart by the administration so that expenditures are held down in the coming year.

If too little is done in these areas, then taxes will have to be increased, which is preferable to increasing the debt. We would regret the necessity for a tax increase. Experience has shown that high tax rates are an impediment to economic growth. Our hope is that as Federal revenues grow in the future, expenditures will grow by a smaller amount, permitting regular tax cuts that will stimulate long-run economic growth.

We recognize that changes in tax rates starting from a level of exceedingly high rates can be a powerful weapon for economic stabilization. We would not hesitate to use the tax tool when necessary. However, our feeling is that a tax increase can be avoided today if our recommendations in the fiscal and monetary areas are followed. As we have already stated, we feel that an increase in taxes this year might be followed by a reduction again next year if recession threatens. It would be considerably more difficult and time consuming to cut taxes again next year than to reinstate the expenditures deferred this year.

However, if a tax increase becomes necessary, we believe that a flat percentage increase in corporate and personal rates would be the simplest and quickest method to pursue.

We believe that consideration should also be given to elimination or temporary suspension of the investment tax credit as part of any proposed general tax increase package.[7] Since capital expenditures are at an unsustainably high level and apparently going even higher, there is a danger that the economy may face a situation of excess capacity sometime in the future. It would be desirable under these circumstances if some currently planned capital spending were deferred until next year or beyond.

On the other hand, new capacity increases aggregate supply and enables the economy to absorb higher levels of aggregate demand without inflation, particularly in distribution and services where bottlenecks and shortages are particularly serious. More efficient capacity also strengthens our international competitive position and produces a larger growth in productivity and downward pressures on costs at home. Our long-run policy should continue to em-

[7] Senator Javits believes the prevailing priority should continue to be the encouragement of real production, and he is, therefore, for retaining the investment tax credit. He wants to see it broadened to include manpower training expenditures by business which are approved by the Secretary of Labor and in addition to normal training already being carried on.