Secretary FOWLER. Because as a real matter and as a psychological matter we think that the——

Representative REUSS. Psychological is cosmetic.

Secretary FOWLER. You call it cosmetic. I would call it real and psychological.

Representative REUSS. What is the real part?

Secretary FOWLER. A lot of people live by these things.

Representative REUSS. That is the psychological?

Secretary FOWLER. That is psychological.

Representative REUSS. So that real equals the psychological, which I claim equals the——

Secretary FOWLER. And in addition to the psychological, we think to pull back the level of the NIA deficit in fiscal 1968 will be economically desirable, assuming, as we do, that the social security program that the President has proposed will be enacted, and that some of the sectors that have been faltering, such as the housing sector, are in the process of responding and coming back to somewhat normal proportions.

Representative REUSS. Let me state, you having stated the pre——

Secretary FOWLER. The third reason is the monetary.

Representative REUSS. Yes.

Secretary FOWLER. We think that what is most needed in terms of a balanced economy in the period ahead is the assurance to the businessman that money and credit are going to be available on reasonable terms. We believe that avoiding a return to any monetary stringency of the sort that characterized 1966 will be highly desirable. We believe that the surcharge is some additional assurance that that will not be the case.

Representative REUSS. Thank you for stating your reasons. My difficulty with the whole business—and I want to return to this later—is the reasons you have named for the tax increase—easing monetary policy, and paying for the war, and diminishing the deficit, for real or cosmetic or any other reasons. Your 6 percent tax increase, if it works, and I think it probably would, is going to diminish consumer demand and investor demand, and raise our unemployment, particularly of Negroes and teenagers. In fact, there is a perfectly good way, though it takes some courage, of achieving the fight the war and reduce the deficit and reduce the impact on monetary policy aims, and that is to have a big loophole plugging tax operation.

The Economic Report mentions some scandalous loopholes in interest exemption of high-bracket taxpayers, and there are a lot more, such as abuses of capital gains, that aren't even mentioned. Why not send up a good loophole plugging program that raises $3 to $5 billion, and let Congress take the onus.

(The material referred to by Mr. Reuss is reprinted from page 167 of the Annual Report of the Council of Economic Advisers, January 1967.)

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OTHER ISSUES OF TAX COORDINATION

Among other problems requiring better coordination of Federal-State-local taxation is one dealing with the exemption from taxation, under the Federal individual income tax, of interest paid on State and local government securities. Because of the exemption, these governments can borrow more cheaply—paying