

man, any fixed formula for judgment. I think all of these factors are involved. Chairman Ackley's testimony indicated that we are certainly going to keep an open view.

Chairman PROXMIRE. I think the illustrations you have given are certainly very encouraging to this committee and certainly to this chairman. You are looking at the economic situation—the economic impact of the surtax. I suggest if you look too much on the deficit side, although I am concerned with that as you are, that we might have a situation of less growth in the economy, stagnation, even conceivably recession, in which case, of course, the deficit would be bigger than you estimate. But a surtax would be most unwise.

Secretary FOWLER. That is not likely, but it is possible.

Chairman PROXMIRE. The reason I raise that point is that we have failed to look at one very important element. That is that during 1965 and the early part of 1966, unemployment was diminishing. Pressure on plant facilities was increasing. But we have had reasonable stability in unemployment throughout most of 1966.

We have a situation now where the Council of Economic Advisers tell us they don't expect unemployment to drop at all. It may increase. We have a situation where they say they expect pressure on plant facilities to be less, not 92 percent as it is now, but 89 percent at the end of the year.

Under these circumstances, with the automobile industry in some difficulty, at least with sales falling off compared with last year's, with retail sales falling generally, with housing suffering, with the record showing that it takes some time for housing to recover. Lower interest rates may not push housing back up. You can't push the string as Chairman Martin has said; it may well be that a surtax would be a serious economic blunder. Not so much because of its size, although size is significant, but because of the psychological effect and of its irreversibility.

You know, I remember Martha Griffiths saying so amusingly that you could get a tax cut through Congress more quickly than a declaration of war. We all know that is not really true. It took 2 years to get the last one through. Meanwhile, we might be pushed into a recession, and I would hope under these circumstances, that you would do as you so well indicated this morning—give very careful consideration to the economic situation in April and May before you press this.

Secretary FOWLER. Mr. Chairman, as I think Senator Javits said in the statement on behalf of the minority—I would put it a little differently from the way he put it—that the price of success in keeping a full employment high utilization economy moving is always treading a very narrow line between the prospect of deflation on the one hand, and the prospect of inflation on the other.

Now when your economy is slack and is not dynamic and isn't doing very well, you don't have those two things usually to worry about. But in the kind of economy that we have now, both of these are always possibilities that you have to keep in mind.

I think there is an equally good and in my mind a more persuasive case that in the fiscal year 1968 the likelihood is going to be a return of inflationary pressures. This danger is something that we would want to guard against, and even if inflationary pressures did not return, we would nevertheless want to have the assurance that we were