

employers, who will bring people into the labor force, and who will do their very best to take people who previously haven't been acceptable to them—teenagers, inexperienced workers, women, minority groups, and so forth, and that when the pressure is on them, they are going to do this. And if we take the pressure off, if we are going to say well, 4 percent is all right, then we are not going to get that kind of training, and we are not going to be able to have that force that will help eliminate the structural problems.

Mr. HELLER. You won't find me disagreeing with that, and indeed World War II and the Korean war period demonstrated this, and it has surely been demonstrated in the last year or two, too. That is to say that a great deal of ingenuity has been used in converting square pegs to fit them into round holes.

Chairman PROXMIRE. Thank you very much, Dr. Heller. My time is up. Congressman Rumsfeld?

Representative RUMSFELD. Dr. Heller, when do you predict the major impact of a July 1 tax increase would be felt? Would it be fairly soon, in the second half of 1967, or would it be the following year, the early part of the following year?

Mr. HELLER. Mr. Rumsfeld, I have worked those numbers out at one time or another in terms of the quarter-by-quarter growth in the impact. I can't cite them to you exactly. I would say that it takes about a year, three quarters to four quarters, for the full or nearly full multiplier effect of such an increase, to work itself out. That, of course, is another reason why, even though the economy may not be doing everything you want as of July 1, let's say, but is on a strong uptrend, you might want to have the tax increase in terms of the full impact hitting later in the year and in the following year. But I can't give you a quarter-by-quarter number.

Representative RUMSFELD. If it is generally as you suggest, then really how good is our ability to foresee whether a tax impact would be appropriate at the time it's full effect would be felt? I have been impressed as a new member of this committee with the great number of things which even our brightest minds don't know about the future, and the effect of these various things, the various tools that are available, and it concerns me, if this is the case. Do you feel good enough about our ability to look into the future that with that type of a delayed effect that that would be prudent?

Mr. HELLER. Mr. Rumsfeld, I would make two comments on that. First of all, I agree with you entirely that our ability to forecast isn't so reliable and perfect that we aren't going to make mistakes and aren't going to be surprised at times.

On the other hand, all policy life has to be based on projections into the future, and even if you take no action, that is a forecast and a projection.

What you have to do is use the best knowledge that is available, make your forecasts and form your policy on that basis, and then—and this is my second point—make policy flexible so that if you make mistakes, you can backtrack. If you put in a temporary tax increase, there ought to be provisions for taking it off in case you are wrong.

Representative RUMSFELD. Let's look at one side of this. The Council's report suggests that business is going to be relied upon to resist further inflation by shaving profit margins. I don't know