

This is flexible monetary policy. And precisely similar flexibility is needed for fiscal policy.

To achieve true flexibility the President should be granted discretionary power to impose, reduce, or rescind, as the case may require, surcharges supplementing the regular tax liabilities of corporations and individuals. Recommendations along this line have been made by your own Subcommittee on Fiscal Policy, by the Commission on Money and Credit of some years ago, by President Kennedy in his state of the Union message of 1962, and by economists representing both conservative and liberal schools of thinking.

To safeguard congressional control of taxation I should be prepared to agree that the Congress should retain the power, by majority vote in both Houses, to veto any presidentially ordered surtax rate changes.

The procedure proposed by the President in the current report will not give us the flexibility we need. Consider the situation that may well confront us this year. The Congress by late spring will be holding hearings on the proposed surcharges. There will be sharply divided opinion. Even though events may strongly indicate the need of a surcharge, action may be delayed until late in this calendar year or perhaps entirely rejected. Obviously, timing is of the essence.

If someone objects to the flexible procedure which I have suggested above on the ground that no one can be trusted with such powers, my answer is that the Federal Reserve exercises exactly such powers. It is my conviction that such powers should in a democratic society rest in the final analysis in the office of the Chief Executive—the office which alone is responsible to all the people. Once this reform has been instituted, I have no doubt that the country will quickly come to expect, as routine performance, small but reversible changes in surcharges just as changes in discount rates and open market operations are now accepted as a matter of course.

Will a flexible fiscal policy create uncertainties and destroy confidence? The Council in the current Economic Report has stated the case very well as follows:

The flexible and continued use of stabilization policies should enable both business firms and individuals to make their economic decisions in a climate of greater confidence. A knowledge that policies are alert to changing developments should help to reduce the important uncertainties about possible fluctuations in sales, profits and employment opportunities.

Mr. Chairman, I would like to add a few comments which may possibly anticipate some questions that some of you may wish to raise later. In particular the criticism that has been directed by many against the Council with respect to the much-discussed tax increase of February last year. There was much discussion about whether or not we should have a tax increase. I would like to say a little bit about that along lines that I think have not been adequately discussed in the financial papers and elsewhere.

If you look at the price development, the wholesale price development from October 1965 to February 1966, that is a 4-month period, you will find that the Wholesale Price Index increased by 2.3 percent in 4 months. On an annually calculated basis that would be an increase of 6.9 percent.

Now that was pretty shocking, and I think was probably a very important factor in inducing a lot of people to become frightened about the situation, and to demand a tax increase.