Representative REUSS. Which would work out at something like three and three or four and two.

Mr. MCCRACKEN. Something like that.

Representative REUSS. Give or take a percentage point. Then you talk about the projected deficit in the months ahead, and you give as your judgment that it is about $5 billion more than you would like to see from the standpoint of not vitiating that monetary policy.

I won't at this time comment on the sociological value judgment which you make, and which we want you to make, as to whether this $5 billion in deficit should be saved by taxing that much more or spending that much less. Put it to one side for the moment.

Whichever way we elect to apply your $5 billion thesis, isn't it going to have an effect over and beyond the wholesome effect that you want; namely, not to vitiate monetary policy. Isn't it going to have an effect on the demand side, and whether we adopt the President's 6-percent surcharge and keep spending where he wants it, or whether we cut spending $5 billion as you would prefer, isn't this likely to have a possibly untoward effect on total demand which might produce the worst of both worlds; namely, tight money and some inflation, and also a deficiency of demand which would increase unemployment?

I will now come to my point before asking you to respond, and that is this. Wouldn't we be better off agreeing, as I tentatively do with your, "We must decrease our deficit by $5 billion," wouldn't we be better off, and there still is time, by making an all-out gung ho effort to close tax loopholes, and thus accomplish your preferred fiscal role, without at the same time investing that fiscal role with a counterproductive byproduct role of overreducing demands?

There is, I should think, $5 billion to be found in plugging tax loopholes, such as oil depletion allowance, capital gains abuses, abuses in the income tax exempt privileges of States and localities, estate tax loopholes, et cetera. Why therefore, not find your $5 billion first by an all-out attempt to close loopholes and repair the revenues in that way?

If you fell short of the $5 billion by a billion or two, then my quarrel with you about should it be in spending or an across-the-board tax increase would be markedly less, and at that point I might quite well agree that in space, in certain less essential nondefense programs, and I should think in defense too, we could readily find that $1 or $2 shortfall. Do you see what I am driving at?

Mr. MCCRACKEN. Yes, I do. Well, let me just make two or three points. I am not sure that they will be well organized here.

My first point would be that in looking through the tops of our bifocals at the whole budget picture, a key question in any budget is what budget will accurately reflect the preferences of people about how they want to allocate their income and their resources between the public and private sector.

As I look at what fragmentary evidence we can bring to bear on this, I don't interpret this evidence to suggest that, say, a 7-percent-per-year rate of growth in nondefense spending would be out of line with this.

Now point No. 2 is that for technical reasons it is true that a reduction in spending, or a reduced rate of increase, is probably apt to have a somewhat more restrictive effect on the level of business activity than