

weaknesses that must be taken into account in efforts to evaluate the effects of the tax increase proposed for 1967.

The Administration has already cut government civilian spending in several areas. Many of those who now urge further cuts in preference to tax increase argue that higher taxes would cause a serious slowdown in economic growth or even a recession. This argument ignores the fact that the effect of reduced government spending on the level of demand and of economic activity is precisely the same as that of a tax increase. In addition, the proponents of spending cuts seem to overlook the point made by President Johnson in his budget message that only 11 percent of total administrative budget expenditures (14.2 percent if pay increases for government employees and the effect of the sale of assets are excluded) consists of what may be considered "controllable" civilian expenditures. Even among these, the degree of controllability is limited; and although some of the programs involved might be stretched out without social damage, a sharp reduction in the total of such expenditures would retard progress toward the Great Society. It would hit with disproportionate impact the same disadvantaged groups who would be the main sufferers from an economic slowdown or a recession caused by a cut in government spending.

Proposals to increase taxes must be evaluated on the basis of their probable effects on both employment levels and our national goals. We in the IUD and the UAW are prepared to give our enthusiastic support to tax increases designed to reallocate economic resources from less important private uses to more urgent public needs. We would not only support, we would urge, any equitable tax increases that might be required to transfer from the private to the public sector more adequate resources for education, urban redevelopment, elimination of environmental pollution, the poverty program, and similar high-priority purposes. Similarly, we would support selective tax increases designed to rechannel resources within the private sector from low-priority to higher-priority purposes or to diminish sectoral inflationary pressures. Selective taxation, for example, could be used under appropriate circumstances to discourage inventory speculation and an unsustainably high rate of business investment and to encourage diversion of the resources involved into housing. Suspension of the investment tax credit is a form of selective taxation.

Effect on employment

Tax increases do more than reallocate resources, however. Depending upon the relationship between the amounts of revenue raised by government and the amounts spent, tax increases also affect employment levels. This Committee, functioning as it does under the Employment Act, is obligated to ask: What bearing will a tax increase have on the goals of maximum employment, production and purchasing power? Is there any danger that it will perpetuate or cause an increase in present levels of unemployment? Will it, in combination with government spending, promote or retard fuller use of our productive resources?

The answers are apparent from the Council of Economic Advisers' Report. Basing its projections on the assumption that the proposed tax increase will be enacted, the Council, as previously noted, says that the unemployment rate in 1967 "should be essentially the same as in 1966, when it averaged 3.9 percent." *It follows that, assuming the Council's projection is otherwise valid, the unemployment rate would drop below 3.9 percent if there were to be no tax increase.* The Director of the Bureau of the Budget acknowledged that in these hearings.

It is clear from the Council's Report that the purpose of the proposed tax increase is not primarily to promote a better allocation of resources but rather to restrain the growth of demand. The Council calls for "a shift toward restraint in fiscal policy [as of mid-1967] . . . to assure that demand does not outrun capacity." The premise, obviously, is that by mid-year the economy will be "overheated" and will need "cooling off." In our view, there is serious question about the wisdom of the Council's position for we believe that the result will be to halt further progress on the unemployment front for fear of inflation.

As is evident from the current unemployment rate as well as from the capacity utilization rate noted later in this statement, however, the economy is not now operating at capacity. There are no persuasive reasons to believe that it will be doing so in the second half of 1967, even if there were no tax increase. Certainly, full utilization of capacity would be accompanied by an unemployment rate very substantially below the approximately 4 percent projected by the Council.

The ability of a modern industrial economy to reduce unemployment substantially below 4 percent and keep it consistently below that level has been established by the success of other free world countries in doing so. The table on the