I don't want to go into the merits of these two interpretations because I would like to reserve, with the chairman's permission, a few minutes for my policy conclusions. But I want to say that I feel at this time policies should be formulated on the assumption that either of these interpretations, or most likely some combination of the two, may turn out to be right.

I do feel that we are in a situation where it could be hazardous to base short-term policy decisions on short-term forecasts, as Henry Wallich has suggested. I think we have to consider the uncertainties of the situation and whatever assumption we make, we have to calculate what the effect would be on policy if our calculation is wrong. That is the guiding principle, I think, for making policy recommendations under conditions of extreme uncertainty.

I will, with the chairman's permission, make remarks (1), on the tax recommendation and (2), on the guidelines. On the tax recommendation, as I go through the various arguments, I come out in favor of the President's recommendation of asking Congress to prepare the legislation now. I think that this is the most prudent course of action.

My main argument is not the economic forecast—it's the possibility that defense expenditures turn out to be higher than they are now estimated. If somebody tells me, as my friend Henry has suggested, that we don't know anything about these future expenditures, because we are not experts, I say I am not an expert in making a forecast, but I know that nobody knows, and so I want to do the prudent thing.

I think it will be much easier in June, when the legislation is prepared, to say it wasn't needed and then drop the proposal, than suddenly be surprised again by increased expenditures—or perhaps by a stronger economic development than is now anticipated—and start the process of tax legislation only then.

Therefore, I think it's very wise to ask for such measures now. Actually, that gives President Johnson something which President Kennedy tried to get and Congress didn't give him—and I think Congress shouldn't give the President—namely, discretionary power to change tax rates. This is one way of getting a certain flexibility without really surrendering the power of the purse to the executive branch.

I do think also that once we have the new survey of business intentions for plant and equipment in March, that will be the time for taking another look at the investment tax credit and for making a decision as to whether or not that credit should be reinstated earlier than under present legislation. Sometime before the effective date of the tax increase I hope there will be a brief period of hearings by the tax-writing committees, and I also repeat the recommendation that at such hearings, besides the witnesses from the administration and from outside, there should also be testimony coming from the Joint Economic Committee.

In this connection I look again at what your Subcommittee on Fiscal Policy recommended in May 1966 under the leadership of Mrs. Griffiths. I am sorry she isn't here, but I would be happy if she reads the record. I think the recommendations which her subcommittee of this committee made stands up very well today.