

They also found that for the period thereafter and for the postwar period particularly, if we wanted 4-percent unemployment, we would have a higher rate of price increase. We couldn't have anything near stability.

I would add that the belief that we can steadily and stably buy lower unemployment by tolerating more inflation is not realistic because it assumes that labor is blind to the inflation.

Chairman PROXMIRE. Isn't it very important that you pay attention to the changes in the economy, the rate at which the economy is expanding? One of the reasons it seems to me we had very stable prices in 1953 is we had had a low level of unemployment, just as we have had now for a year.

It would seem to me that under present circumstances where we have held unemployment down below 4 percent for a year, that we could proceed to get it down to a goal of maybe 3½ or perhaps even lower, and this is so enormously important in terms of providing for growth, providing for jobs, for people who need jobs. This is such a vital policy decision that I do want to press you on it.

Mr. WALLICH. There is the hope that what caused inflation last year was not the level of 4 percent but the speed with which we got to that level, plus the demand shifts from civilian to defense, for instance. That always tends to push up prices.

We don't know. Some years hereafter we will be able to estimate this. My own suspicion is that we are reaching here for an explanation that would be nice if it were true, and it may deceive us. Since we are under the gun as far as the balance of payments is concerned, I think we can't afford to take many chances here.

Chairman PROXMIRE. I would like to ask Professor Lekachman this. You came out for a tax increase to pay for a substantial expansion in the Great Society programs. Many of us are very sympathetic to many of your suggestions, especially in the area of providing training opportunities, and so forth. But to be realistic, I frankly don't think there is much chance of getting a big jump in these programs this year.

Now on the assumption we don't get these additional appropriations—supposing we don't get them, Professor—under these circumstances would you still favor a tax increase, or would you feel that in a year when we are increasing social security perhaps by 20 percent if we follow the President's recommendations, in a year where because of the war situation it may be especially difficult to get the Great Society contributions we need, would it not be wise to forgo the tax increase, if this could put sufficient pressure on the labor market so that more people would be pulled in, and as you indicated very properly, this is the kind of thing that does pull them in, and would provide the kind of training and the kind of opportunities in employment that otherwise wouldn't be there?

Mr. LEKACHMAN. I was speaking, Senator, to what I thought was desirable. If I now address myself to what is possible, I think you are quite correct in inferring that given the probabilities of unlikely increase in the President's recommendations, and indeed possible decrease in these recommendations, that my own position brings me to oppose a tax increase.