

Mr. BACKMAN. That is the most inflationary approach.

Chairman PROXMIRE. In a tight economy it is inflationary, but in a slack economy it is not inflationary, and it doesn't increase interest rates, and it is something that can be done, and I am not sure that this wouldn't be the prescription, depending on the status of the economy.

Furthermore, if you talk about inflation, what is going to happen to these taxes? No. 1, the increase in the corporation income tax is going to be pushed onto the consumer to some extent. Certainly the increase in the corporate income tax in the regulated industry is going to be completely pushed onto the consumer, which is going to increase his cost of living and in other industries to a lesser extent but to some extent. It increases the cost of living of the stockholder, too, incidentally.

In the second place, unless we want to go to jail, we have to pay our taxes, and that is part of the price of living, to pay our taxes, so our cost goes up. I submit, I think you probably agree, the most desirable thing, if we can do it, is to cut spending.

Mr. BACKMAN. That I would agree with completely. I would say that a cut in spending is the No. 1 approach. I can't identify where it can be cut, but out of \$135 billion, there must be some things we can defer, whether it be in a highway construction program, the farm area, or be in any of the other areas where many billions go out.

This would be my first choice.

But let me note, Mr. Chairman, that the effect of a cut in spending is almost exactly the same as the tax increase in terms of narrowing the spread of how much the Government is contributing to the economy.

Chairman PROXMIRE. That is right.

Mr. BACKMAN. So I am happy to see you agree that if we do something in this area we can do it despite the prospect of a leveling off in the economy. I don't like the word "slack," because it implies a whole lot more than what you and I are talking about. I think slack to most people means large amounts of idle resources. What we are talking about is a small margin below the top, a relatively small margin.

We are in a war. We have costs in connection with this war. We must pay for it in some manner and it seems to me that the American people are willing to pay for it.

Do I like a tax increase? Not personally. But I am afraid that this isn't the test. The test is how long can the Federal Government go along in the red at \$10 billion, \$15 billion, or \$20 billion a year even at this level of economic activity?

I think we have become over-preoccupied with whether the production index is going to go down several points. I am afraid I am stuck with the recommendation of a tax increase, unless we can work out a large cut in expenditures or unless a significant downturn takes place.

Chairman PROXMIRE. Thank you very, very much for a most stimulating presentation. You certainly have fielded these questions beautifully.