the gold drain, repair our balance of payments, and obtain the desired degree of restraint on our epidemic of rising prices.

In doing so they are largely ignoring at least two points made by the Chairman of this committee in the February 29 House debate on the Tax Adjustment Act of 1968, namely, that our present price rises are mainly cost-push ones—a point on which Mr. Curtis joined him—and second, that there is still a good deal of slack in our productive activity and on the side of demand. Despite frequent assertions by "experts" that the U.S. economy is "overheating," there are few real signs of that apart from the disrupting shortage of copper products due to the 8-months strike and the questionable interpretation of the price rises.

The objection to the surtax implied in those two points seems correct and important. Slowing the rate of growth of the country's aggregate demand by several billions of dollars (assuming the plan works that far) is likely to get us into worsened employment and business conditions long before it has an appreciable retarding effect on cost-push price rises. This will be specially injurious at a time when hundreds of thousands of new jobs are wanted for hard-core unemployed and ghetto-dwellers and when expanded business unertakings are hoped for to improve slum housing, etc.

Also, a roughly 10% increase in income taxes may fail to reduce aggregate demand appreciably while corporations and individuals have enough other ways of maintaining their expenditures if they choose to, such as drawing on capital funds, including loans. Still further, as the Chairman has pointed out, increasing the taxes of corporations and of employees may actually add to the cost-push price rises, especially if pay increases to offset the higher taxes are secured, through union bargaining or otherwise.

The ability of the surtax to rescue the international monetary system seems even more remote. Among other weaknesses, it is far from sure to increase U.S. exports.

One question before the committee, therefore, seems to be wether it will bow to Presidential and public clamor for the surtax, or try to do a better job than the Administration has done in finding adequate answers to these critical problems.

EXAGGERATED CLAIMS FOR CUTTING GOVERNMENT EXPENDITURES

On the other hand, the replacement for the surtax favored by some committee spokesmen, i.e., cutting federal expenditures, has some of the same defects. Both would presumably work primarily through reducing the rate of growth of aggregate demand. The doubtful effectiveness of that on cost-push price rises was cited by the Chairman and confirmed above. Although an influence in the direction of restraining price rises, spending cuts of a few million dollars during the next year or more may be washed out in the operations of a GNP of well over $800 billion. They would, however, be likely to lead more directly than the surtax to reduced employment, by causing lay-offs of employees on government projects which are curtailed, at least in the first instance. If these people find new jobs elsewhere without loss of income due to having to accept lower rates of compensation (and without forcing other people into unemployment), the committee spokesmen's case that budget cuts are a better answer than the surtax in curbing price rises and improving our balance of payments seems faulty, or at least unproven, if monetary policy remains the same in either case.

On the basis of the so-called neo-Keynesian economics used by the committee in the hearings to question the effectiveness of the surtax, there seems no clear reason to prefer Government cut-backs over higher taxes. A program of cutting Government expenditures accompanied by tax reductions can be claimed not to lead to a reduction in aggregate employment or demand, but in this case Administration agreement to cut expenditures is being discussed as the key to this committee's agreeing to approve the surtax. There would thus be a double danger to employment—and at a time when concern for domestic conditions is strong—with only vague hopes of holding down cost-push price rises and strengthening our balance of international trade.

(To try to prevent misinterpretation of the above discussion, the writer should perhaps add that he believes neither in government expenditures under prevailing conditions merely to continue employment of job-holders nor in so-called neo-Keynesian economics as supplying the answers to our present problems.)

DEFECTS OF THE TRAVEL EXPENDITURES TAX

The proposed travel expenditures tax seems to deserve to be called part of a meat-ax approach to the balance of payments problem.