Mr. WALLICH. It gives him no cash and his dilemma of paying 8 percent or 8½ percent at low farm prices remains unchanged.

Senator JORDAN. What fiscal restraint would you recommend at this time, Professor Wallich?

Mr. WALLICH. I would go for a tax increase plus expenditure cuts. My preferred tax increase is not a surcharge, but an across-the-board increase. The reason for that is that we always try to mix economic reform or economic equity with a tax change. That is why we get hung up on accomplishing it. If we instituted once and for all a rule that when taxes need to be raised, they are raised across-the-board, and when they need to be lowered, they are lowered across-the-board, then we have removed the distributional effect, the impact on the upper and lower income brackets. I think these changes will go through the Congress with much less difficulty than they do now.

As far as expenditure cuts are concerned, everybody has his priorities. My colleague, Professor Modigliani, mentioned the SST. Surely, that looks like a very useless expenditure now. We do not know 10 years from now how we are going to feel about it. We may now feel in our balance of payments the failure to make certain R. & D. expenditures 10 and 20 years ago that now would be giving us an income.

I would go slow on cutting things that will improve the balance of payments 10 years from now.

Senator JORDAN. Instead of being selective, could you give us a percentage of cut that you think would be a good target?

Mr. WALLICH. I could very easily, Senator, generate $6 billion—I cannot do it in percents, but I can do it in billions.

Senator JORDAN. Yes.

Mr. WALLICH. I could do it in billions and bring it up to six or more. But I am not sufficiently unrealistic to think that some of the programs that are deeply imbedded in our legislation or in our political structure could easily be cut. When I look at the programs that I think are cuttable, I have quite a hard time getting to 6 percent.

I just want to note that a civil service increase ranks as equally important in our program at the margin as the poverty program.

Senator JORDAN. Would you two gentlemen agree that $6 billion is a desirable target for cutting? Would you say more or less?

Mr. MODIGLIANI. I would say $4 to $6 billion. I would think that would be quite adequate.

Senator JORDAN. Professor Chandler?

Mr. CHANDLER. I would find it difficult to answer that without knowing which expenditures were going to be cut. If a major part of it came out of the antipoverty program, I would not be happy. If it came out of the supersonic program and perhaps nonessential military expenditures and some things of that sort, I would be much happier.

Senator JORDAN. Thank you. My time is up.

Chairman PROXMIRE. Congressman Moorhead?

Representative MOORHEAD. Thank you, Mr. Chairman. I would like to continue with Senator Jordan's line of questioning.

My question is: Given the proposed package before the Ways and Means Committee of a $4 billion cut in expenditures plus approximately $10 billion increase in taxes and recognizing that there might be a better way, do you economists feel $14 billion is too much, not enough, or just about right for our situation? May we hear from each of you?