demand pressure in the economy. But I suspect I would probably agree with those who say we have cut too much.

Senator PROXMIRE. Let me interrupt at this point to say that I was impressed by Dr. Mangum's indication that the thing our society or economy has done is that we have required the poor to be our price stabilizers. We do that as we cool off the economy and increase unemployment, the people who suffer are the people at the margin of work, the minority groups and the other people who do not have the skills and are laid off and cannot find jobs.

Mr. WATTS. You have almost made my point. The only other addition I would make is that not only can the poor benefit by getting more and better jobs when the unemployment rate is low, however achieved—good job programs or inflation of the economy—they also tend to benefit from any resulting inflation. To the extent that we can separate those two effects in our data, we observe a more rapid rate of reduction in poverty, after allowing for the price level changes, during periods of rising prices, than we do at times when prices are more stable.

Some of this makes sense, I think, since they are buying a different market basket from the rest of us. Things they buy do not tend to rise as fast as the things the rest of us buy.

The other factor is that they do not tend to be net creditors in fixed dollar claims. To the extent that the change in the price level does have something to do with debts and the size of the burden of the debt, net debtors in terms of a fixed dollar claims tend to gain. So there are a couple of ways in which inflation is not adverse to the welfare of the poor.

I would certainly like to second your comment that when we are agonizing over this tradeoff along the Phillips curve, it is a little ungraceful for us to say, "I guess we just cannot have that much price increase; it is going to be hard on the poor folks, but we will have to put up with a little more unemployment."

We may feel sorry about that every night, but they are the ones who are actually going to bear the cost of maintaining our purchasing power.

Senator PROXMIRE. Do all of you agree with Dr. Pechman's observation, the notion that if your tax level is high enough, it is perfectly possible to have an adequate negative income tax or children's allowance, or whatnot, without inflation? In effect, what you have is virtually zero unemployment, because everybody who does not work will be getting a payment which is equivalent to at least a simple wage.

Many of them will not be producing. Can you, in your view, do this without inflation? Can you do this without a tax which is so oppressive that we would have serious difficulties with the economy; that is, destroy incentive and in various ways retard goals?

Do all of you agree with Dr. Pechman that this is perfectly possible?

Mr. WATTS. I do.

Mr. HILDEBRAND. Yes.

Mr. ROLPH. I not only agree with him, but if you have a credit income tax, in effect, you have a powerful tool. If you slip into inflation——

Senator PROXMIRE. Yes, that is very important. We have been concentrating entirely on what you do in inflationary situations. The