

Mr. TOBIN. Oh, yes. If we were to put into effect a more adequate welfare program, a negative income tax or a more adequate training and employment opportunity program for the poor people that we are talking about, that is going to cost money and as far as its economic effects on the general level of aggregate demand is concerned, it has to be offset either by taxes or by reduction in other Government expenditures.

Senator PROXMIRE. But the tax increase, the offsetting by taxes, seems to put you in the position again of to some extent increasing your problem of providing jobs. As I understand it, Gardner Ackley, when I wrote him last year and asked him the impact of a 10-percent increase in taxes, said it would in his view eliminate over 30,000 jobs. I think he was being very conservative. If you count with that a \$6 billion cutback in expenditures and about a \$12 or \$13 billion cutback in appropriations which you would have to have to get that cutback in expenditures, it is my understanding that it would decrease 600,000 or 700,000 jobs or more. So if you increase taxes to pay for this, do you not have the problem of continuing a situation in which you have a high or relatively high level of unemployment in terms of trying to solve this problem? Can you do it without price controls, or what other mechanism is there?

Mr. TOBIN. You can put in this program and you can make its effects fiscally neutral, neutral in its effect on inflation and on the general employment rate, by matching in a suitable way the increase in expenditures for welfare and for relief of poverty with other adjustments in the Federal budget, either on the tax side or the expenditure side. So if you are talking about a program on the expenditure side, then that can be neutralized at whatever level you are operating the economy by taxes or other economies in Government expenditure.

Senator PROXMIRE. I think that is undoubtedly correct. You can do it. My question is how big a tax program are you likely to have before you can achieve this equilibrium at a very low level of unemployment and at an adequate level of income maintenance?

Mr. TOBIN. What I am trying to say is that the question of the level of unemployment on a macro-economic or economy-wide basis—whether it should be 3.5 percent, 4.5 percent, or 3 percent—that is one decision. That is a decision about the general thrust of monetary and fiscal policy in the economy. That is the type of problem you are faced with right now in the proposed tax surcharge and the \$6 billion cut in Government expenditure.

Then there is another question, a distributive question, the question of the distribution of job opportunities and of income and wealth, helping the poor.

Senator PROXMIRE. The two questions are related, are they not? They are not separable?

Mr. TOBIN. They are separable.

Senator PROXMIRE. Well, they are separable in a sense, but they are related in that if you have a level of 4.5 percent unemployment, as you might have next year, then you have a bigger problem of providing for greater payments under your negative income tax, greater payments to provide or greater subsidies to provide jobs either in the business sector or in the public sector.