

encountering special problems free to adjust reserve positions without upsetting the securities markets in general.

Chairman PROXMIRE. There are a couple of interesting problems with regard to giving the executive the power to increase or reduce taxes within, say, a limit of 10 percent. One, of course, is that Congress is very sensitive about the argument that the executive has moved in and taken over virtually all the authority and power of our Federal Government now, getting more and more all the time, and Congress is not doing the job it should do. The only real power that Congress has left is the power of the purse, the power to tax and the power to spend. To give that to the executive, what is left?

Another point is that supposing that President Johnson had had the power to increase taxes given to him, say, at the beginning of his election in 1964-65, and he acted on it when he wanted to in the middle of 1966 or—

Mr. ROBERTSON. Early 1966.

Chairman PROXMIRE. Maybe early 1966. He wanted to in a way and then he seemed to back away from it. However, sometime in 1966 or 1967.

Now, we have a situation where many people are saying that we are going to have that surtax for years and that we may need more in taxes.

Mr. ROBERTSON. Well, actually—

Chairman PROXMIRE. So that you ratchet yourself into a position perhaps very quickly where the limits of this are already established but the major problem is this first problem, the problem that Congress feels if we turn this over to the executive, we might as well fold up shop and let him run the whole operation.

Mr. ROBERTSON. No one would be less disposed than I to see Congress give up its control over the basic allocation of governmental resources. But under the present arrangement we have the worst of two worlds. As it happened, the Congress did not agree on the tax increase until this year, and I think that it came at almost precisely the wrong point in time. That is to say, whereas a tax increase could be defended as early as November of 1965, it in fact came just when the economy was showing some signs of flagging; and I am not sure but what the surtax will put too great a damper on the economy in the last quarter of 1968 and the first two quarters of next year.

It does seem to me that to give the executive some flexibility over rates is not to give up the power of the purse. Appropriations and aggregate Federal spending would not thereby be affected, or at least not necessarily affected, unless you take the cynical view that government inevitably tends to spend somewhat more than it takes in, whatever the level of tax moneys, and I do not take that sardonic view of the governmental process.

Chairman PROXMIRE. Mr. Gies?

Mr. GIES. Senator, are we still talking about the discount mechanism?

Chairman PROXMIRE. Yes, we are. I am sorry. It is entirely my fault.

Mr. GIES. I am not sure that Mr. Friedman does not have a point. However, he makes his case very poorly in the letter to you, because his chief complaint is that it is now an apparatus which complicates the making of Federal Reserve policy and incidentally, gives an unjustified subsidy.