earnings and lower targets for salaries for a temporary period while our industrial plants adopt the modernized methods of integrated production in the case of steel, and the modern technologies in other industries which are going to be necessary to preserve the competitive advantage which we have previously enjoyed, or to maintain a competitive balance with our trading partners around the world.

The abandonment of the previous wage-price guidelines do not make any contribution to a satisfactory solution to this problem. We would, therefore, urge this committee and the Council of Economic Advisers, to most seriously consider the ways in which we may place some type of controls over the tendencies toward inflation which the President and the Council both have noted in their message to this committee—not only so that the consumers may be benefited by products at reasonable costs, but simply because the long-term basic interest of our industries are intimately bound up in the solution to this problem.

THE BUDGET AND TAXES

At a time when our economy was threatened with a mild recession, the Administration and the Congress properly passed legislation resulting in rigid tax cuts in 1964 and 1965, equivalent to about $23 billion in today's economy. This resulted in bringing federal revenues into balance with federal spending. We would comment that it was precisely this approach which was recommended by Andrew Mellon to President Hoover in the depression of 40 years ago. Where this so-called "new economics" gets into trouble is when it is necessary to reverse the process in order to restrict inflationary pressures and to balance a budget which has gone out of balance partly as a result of inflation.

We do not agree with those who believe that it is too late for a tax boost to be valuable in the present situation. Although it might not be able to bring the necessary restraint upon the tendencies of inflation, it certainly has one basic validity, and that is the restoring to the money markets of the world confidence in the dollar.

The success of the policy just noted would be more certain if we could superimpose it upon an economy which did not have the extremely heavy drain which we are having today because of the effort in Vietnam. However, it is precisely just this effort that is still making an increase in federal income necessary.

At the same time, it should be noted that at the time the gold pool nations took their action under the International Monetary System to support the price of gold, and at the time the Special Drawing Rights Plan was agreed on in Rio de Janeiro in September, we were warned by our friendly allies, especially by the members of the international gold pool, that this program could be effective only if the U.S. began to balance its budget. In almost every instance where our friends from overseas have discussed the problem of maintaining the American dollar, which certainly is to their interest as well as our own, they have advised us that we should increase our taxes.

We were very free to advise the French to do the same thing some years back when they were in difficulty, and we have advised a number of the nations who are recipients of our unilateral aid to do the same. The time has now come for us to take a dose of our own medicine, and substitute statesmanship and responsibility for political considerations which might be arrived at with great expense to the long-term economic welfare of our country.

The President has submitted a "hard-nosed" budget. Some of the items left out raise a question as to the good judgment used. The failure to enact an adequate tax structure will mean that other items, no longer in the field of the luxuries which an expanding economy should be able to afford, but in the area of the absolute necessities for a strong economic and political and social system must be laid by the board.

The advice of the Chairman of the CEA, Mr. Ackley, should have been heeded a year ago. Despite the fact that we are late in coming to grips with this problem, we are still well advised to pursue this policy, if not to halt inflation at least to restore some confidence in the dollar which has been shaken by the events of the past few months.

This committee, the Congress and the Nation should also be extremely wary of accepting the suggestions that we should not have any tax increase, even in the midst of a war, but rather a further reduction of expenditures. These, most of the time, represent those who would dismantle our Federal System and this is an excuse to do through the back door exactly what could not be accomplished through the front door. It seems to us that it is beyond the realm of