Executive. I would only say that the objective which we have before us is to make certain that the combination of fiscal and monetary policies pulls the inflation down to about 1½ to 2 percent a year.

Now, that may mean more of a cut or more of a tax or whatever, but it is the combination that has to be worked out with the Executive and Congress for that objective. To specify any one cut is to me not necessarily the answer.

Senator JORDAN. Administration witnesses appeared before the committee last week and said that a combination of tax increase and spending cut would result in overkill. Would you care to address yourself to that?

Mr. BEHRMAN. That in my view would depend on the magnitude of each, Senator. I do not know exactly what magnitudes they were testifying to at the moment, but it is certainly conceivable to me that a small increase in the budget as Mr. Butler indicated with a tax increase is not an overkill, but if you have a larger tax increase, 14 percent or whatever, and a substantial cut in the budget, you might have overkill. But this has to be played in an orchestration.

Senator JORDAN. Would you say that your suggestion of an $8 billion cut in the President's proposed budget plus a 10-percent surtax charge would result in overkill, Mr. Butler?

Mr. BUTLER. No; I certainly do not think so. I think it is a pretty big moose that we are shooting at, and that you need a fairly large-caliber weapon to deal with it.

Chairman PROXMIRE. Did you say "moose" or "mouse"?

Mr. BEHRMAN. Moose.

(The following letter was subsequently received from Mr. Behrman:)

THE UNIVERSITY OF NORTH CAROLINA,
SCHOOL OF BUSINESS ADMINISTRATION,
Chapel Hill, N.C., February 22, 1968.

Senator WILLIAM PROXMIRE,
Chairman, Joint Economic Committee, New Senate Office Building, Washington, D.C.

DEAR SENATOR PROXMIRE: I would like to respond more fully to Senator Jordan's question as to the possibility of an overkill through too much taxation or too heavy a cut in expenditures, and to Congressman Boggs' questions on where to cut expenditures.

What is needed to meet the problem of overkill is to introduce, through the surtax, some flexibility in the fiscal techniques. This could be done by passing a surtax of, say 8 percent, imposing 2 percent each quarter. Then, if evidence developed that the tax was acting too harshly on the economy, it could be removed or reduced the second quarter, and reimposed or left in abeyance the third, etc.

It would be better, however, to provide for automatic response in the tax to the economic changes, so that the imposition, reduction or removal of the tax for each quarter did not have to be debated each time by Congress and the administration. Automatic removal or adjustment could be stipulated according, for example, to the rate of inflation; thus, removal of the surtax could be provided if the price level remained stable for a quarter; or the surtax could be cut to 1 percent in a succeeding quarter if the inflation fell to an annual rate of merely 1 percent during a quarter. The surtax would be at its maximum if inflation occurred at an annual rate of over 2 percent in the preceding quarter.

With such flexibility, it is conceivable that Congress could be persuaded to pass a larger surcharge, say 12 percent, with 3 percent added in each quarter, leaving the law on the books for a longer period than a year. This would avoid the necessity of determining now when the surcharge should be revoked, and a higher surtax would assure the doubters that the U.S. Government fully intended to make the dollar internally sound.

I hope these comments may be useful to the committee in writing its report, and I would be glad to discuss them with you or the staff if desirable.

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