

cally touches off the sort of process that occurred in 1966. And, so, what happens? They cannot tighten credit very much. They know they are in a box. And you get this sort of problem.

You also get a problem in the short run which I think is terribly important. You talk about unemployment. I think you get the problem of the fact we have been running a deficit in our balance of payments for a long period of time, and the rise of prices that is going on today is not going to help our balance-of-payments situation.

Chairman PROXMIRE. The surtax is not going to help it. We cut taxes in 1964 for the express purpose of benefiting our balance of payments and it worked. Unfortunately I did not have the figures when we had the economists here, yesterday, on the balance of payments. But it worked.

The Secretary of the Treasury said the thing to do to improve our balance of payments is to reduce taxes—and he was right. In 1965, our balance of payments improved dramatically; 1966 it improved even more. There are good reasons for that. Now, I submit you cannot have it both ways. If a tax cut helps our balance of payments, a tax hike will not hurt our balance of payments.

Mr. O'LEARY. I supported the tax cut in 1964. And I think it was the right thing to do under the circumstances. But, I can tell you this: Before the President announced his January 1 program I was committed to go to Europe, and be in London and Paris, in the early part of this year. The one thing over there that is being watched like a hawk, in terms of whether the U.S. dollar is something that they want to hold, is whether we pass the surtax.

They are not taking any comfort in this January 1 program. This does not mean a thing to them. The thing that is important to them is whether the U.S. Government is going to have the courage to discipline itself in the fiscal area. They see our rising prices and the lack of action in the fiscal area as evidence that the dollar is going down the drain. And, between now and June, if we do not halt inflation, we are going to get more runs on gold, and the whole international monetary mechanism is going to be in jeopardy.

I am worrying about unemployment in the sense that if we wreck the international monetary system, we could go through a period of deflation that would be much more serious than the slight concern we have now of whether unemployment is going to be a little lower in the second half of this year versus the first half. These are the stakes we are playing for. We have built something in the last 25 years in terms of an international monetary structure. Why run the risk of wrecking that whole thing simply over what I would regard as a relatively modest increase in taxes in a period in which we are overextending ourselves, with a war going on in Vietnam, threatening to expand to Korea.

Chairman PROXMIRE. My time is long past due. I would appreciate, Mr. Hart—I know it is asking something—if you defer your reply. Congressman Brock?

Representative BROCK. Thank you, Mr. Chairman.

You know, one of the things that bothers me about all this discussion is that we seem to be justifying the tax increase largely on psychological grounds rather than economic grounds.

The argument is made that in the puritanical sense we must raise