

be increased, and for which the machinery for expansion is already present.

If unemployment did increase, these programs could be expanded, and would in good part pinpoint their effects right at the places where additional unemployment would be creating hardship. So that I find myself feeling that the unemployment risk that we would get into is acceptable, doubly acceptable because we have had experience of high employment lately. We can afford to take unemployment risks now as we could not in 1964 when our recent experience had all been of subnormal employment.

Representative REUSS. If I may recapitulate what I think is the point of view on which all three of you gentlemen agree—it is that, one, both monetary and fiscal policy are mighty important, and both should be at least modestly flexible. Is that correct?

Mr. O'LEARY. Right.

Mr. OLSEN. As the discussion went across, it drifted away from my own point of view. If I may make a point.

First, I perhaps should confess some of my past transgressions, because I have not been in favor of a tax increase over the past two and a half years. I delivered a paper before the Tax Foundation, a meeting at which the chairman was present, entitled, "The Case Against the Tax Increase." And I still find that a tax increase has certain problems. But, I am in favor of a tax increase at this time because of the war, because of the balance-of-payments problem on which it has a psychological effect, which I do not think can be understated. And the war, in which defense expenditures are \$25 to \$30 billion higher than they otherwise would be, cannot be dismissed lightly.

But I do argue with the suggestion that what we are putting in place here is a stabilization theory which would call for flexible changes in tax rates as may be needed in a mix with monetary policy. I think it is unrealistic to expect that Congress can be made an easy partner to a stabilization policy in which changes in tax rates would be undertaken quickly and easily. I think it has been demonstrated this is a very difficult thing to do.

Representative REUSS. I do not think your colleagues have said a highly flexible tax policy. I think they have said a flexible fiscal policy.

Mr. OLSEN. Yes; to be sure. At the present time the argument seems to be so much on the tax increase side—you are quite right—flexible fiscal policy in this case. But the Council's argument, however, is centered largely on changes in tax rates. And so, I may point my remarks at that proposal. Increases in tax rates produce increases in revenues, which have implications which go far beyond stabilization. One can argue for a tax rate increase, for a stabilization purpose, which on the other hand may be related to expenditure programs. It may be difficult to determine what is being sought—stabilization or new spending programs. So that I think it would be a bad mix, in which we sought to achieve flexible changes in tax rates as a stabilization process over a long time.

Representative REUSS. Thank you, Mr. Chairman.

Chairman PROXMIER. Congressman Moorhead?

Representative MOORHEAD. Thank you, Mr. Chairman. I think maybe one thing that is emerging from this testimony is that the new