economics is running up against the old politics. And this is one of the problems we have.

But, to get back to economics—I agree with you, Mr. O'Leary. I think we should have had a tax increase last year. I committed myself to support it last year.

However, I am not sure there is not a different picture facing us this year. This is strictly economics—not the fact that it happens to be an election year.

You clearly predict a stronger first half of this year—I refer particularly to page 2 of your projections of gross national product where you cite a rising $38 billion in the first half, and a dropping off to an expansion rate of $27 billion in the second half. This is, as I understand it, based on the assumption that Congress would not enact a tax increase.

Mr. O'LEARY. Right.

Representative MOORHEAD. Do you have, or did you compute, on the opposite assumption, that Congress would enact a tax increase that would probably really not bite until, let's say, the middle of the year, around the first of July? Did you make any projections? Presumably it would cause the $27 billion to decline; is that not correct?

Mr. O'LEARY. If they did enact the surcharge. I think we should say, and lay it right on the table, something that I think we all recognize. Economic forecasting is not an exact science. And this being so full of uncertainties, it is extremely difficult to rationalize this.

You see, my reason for the surcharge goes very heavily to the danger we face with respect to the whole international monetary system.

I am not too convinced that whether we do or do not have this surcharge is going to have an awful lot of impact on the domestic economy. What I feel is that to the extent we do have a surcharge, then the Fed will pursue a comparatively easier credit policy. If we do not have the surcharge, they are going to have to be tighter.

Part of the reason for the softer second half, in my thinking, is not only the fact that we will be over the steel inventory accumulation, and over the special stimulus in the automobile area, but part of my reasoning is that, if you do not have the surcharge, then the Fed is going to have to move in—they will be careful about it—but what they are going to have to do is provide less credit than the market wants to sustain that rate of advance of $38 billion in the first half. What they are going to do is, through credit restraint, to top off the business expansion. We would expect it to go off in the second half on this basis, because, I think, implicit in this is some slowing down in the rate of flow of mortgage credit as the year goes on.

What I am assuming is this: If the surcharge is enacted, the monetary authorities may not be driven to tighten credit. They may go fairly well through the year accommodating credit demands. You could say that, let us say, in 1967 the Fed permitted an expansion of loans and investments of some $35 million—you could say they might wind up providing $37 billion in 1968, and that this would be somewhat less easy—it would be somewhat less easy relative to the expansion going on in the economy. I suspect that the way the Fed is going to behave—that it will still permit one whale of a big increase in loans and investments on the part of the banks, but that, relatively speak-