

However, in terms of what ails us—it is a little extreme to call it a crisis situation—in terms of what ails us in 1968, it seems to me that the timing of the loophole closing is not the most favorable. Obviously, it would do us more good to get this through now, in terms of timing, than to get it through a year later. And, if the fact that there is something of a fiscal crisis creates a sense of urgency, fine. It is also true, on the other hand, that loophole-closing is one of the most time-consuming types of tax legislation. And, if consideration of tax reform is going to get in the way of getting anything else done until an agreement has been reached on that, it sets back the date at which anything will happen in the way of tax increases.

Representative MOORHEAD. Thank you, Mr. Chairman. My time has expired.

Chairman PROXMIRE. I would like to go back to Mr. O'Leary before I come to Mr. Hart, who has waited so long to answer that first question. But, Mr. O'Leary, I think you walked right square into it—and I think that Mr. Moorhead did a fine job of pointing up the weakness of your case.

Now, I want to say I have great respect for you. I think you are an excellent forecaster. But, you have done something that very few witnesses do in sticking your neck out. You have given us the figures. And with those figures, I think that your case for a surtax disappears.

Here is why.

You predict July 1 the economy will slow down to an increase at an annual rate of $2\frac{1}{2}$ percent in the last half of the year. We just worked out the figures. And, that is what it worked out to. This is unsatisfactory on anybody's estimate.

I do not know an economist who says this economy should go along at a $2\frac{1}{2}$ -percent increase. This means increased unemployment. It means very serious business problems in the country; that our growth is much too slow. And I emphasize this is without a surtax. With a surtax the economy might not grow at all. Unemployment would really soar.

Now, your argument that the surtax won't slow the economy down further contradicts the position of the Council of Economic Advisers. You and Mr. Olsen take that position. You say the surtax is just going to shift the kind of production of goods and services into more housing and less of some consumer goods.

I think you are absolutely wrong, because I do not think there is that much flexibility. But, on the assumption you are right, the surtax wouldn't have a price effect. It would do nothing about inflation.

Either the Council has to show you are going to get a diminution in the production of goods and services, or you won't get any really significant effect on inflation. You cannot have it both ways. The only way you can reduce the demand is to reduce demand; reduce effective demand—less is purchased, and there are fewer jobs.

So, it seems to me it is very inconsistent for you gentlemen to say that the surtax is not going to really have any effect on gross national product, unless you agree it is not going to have any effect on prices. If it is not going to have any effect on prices, it is not going to have any effect on the balance-of-payments problem really, and it is not going to do what the President and everybody else argues it will do—including the Council. They say it will slow down inflation.