

Mr. O'LEARY. Are these risks worth running over what I think really ought to be an increase in taxes to pay for the fact that we have a war going on?

Chairman PROXMIRE. The fact is, though, that the private sector, as far as international balance of payments are concerned, is still in healthy balance. It is the public sector. We have troops stationed in Europe. A Vietnam war. These are the elements that have really contributed to the deterioration in our balance of payments.

I would like to ask Mr. Hart to answer my first question, which was related to the fact that—unpredictability would suggest that a surtax is a mistake. And I would like to stress to you that I would agree with what I think is your own bias, and mine, too—that we should not reduce the Government investments in human resources, that the anti-poverty program should be increased not reduced, that manpower training programs should be increased, not reduced. I think we have such an irrational system, however, of our Government expenditures, with our supersonic transport, our space program going on heavily, our public works programs, which are very, very hard to justify under present circumstances, have always been cut back in similar situations. I think there is plenty of room for some restraint there, where we can be fast on our feet, and restore the spending if we need it—rather than in emphasizing a tax commitment which is going to freeze us into a tax position for several years.

Mr. HART. Well, may I tie this in, with the question you raised as to whether one seriously expects price effects in the United States. When you are comparing 1964 with 1967—

Chairman PROXMIRE. I was comparing that in terms of the balance of payments.

Mr. HART. Yes. At that moment we had had a record of several years of stability in the level of industrial prices, and in labor cost per unit of industrial output. And there was reason, looking forward, I think, to feel that our position internationally was solid, and also any inflation risk for the United States was over the horizon, and there was time to turn around and do something about it if it intensified.

Now, at the present time we have a recent record of a rise in the industrial price index, a rise in cost per unit of output which represents partly wages and partly the rise in social security contributions—which has made a difference of the order of a couple of percent I think in that relationship—and the consequence is that it is not unreasonable to say that the relation between tax cut situations and the balance of payments is rather different in kind.

It seems to me that a tax increase of the dimensions we are talking about should be expected to have fairly intense anti-inflationary price effects. It changes the climate of wage price policy. If the decisions that are made this spring are made knowing that this tax will be in effect a year from—

Chairman PROXMIRE. It seems to me this is a very slow, awkward and cruel way to do it. We had a situation, for example, in 1958, with almost 7 percent unemployment, the kind of situation where you certainly think you would not have excessive demand. Yet, in 1958, we had a high rate of inflation—in fact higher than it was last year.

So, under these circumstances, it seems to me, if you are going to sufficiently slow down the economy with a surtax, and create a psy-