Protectionist actions would certainly invite defensive actions by foreign countries, retaliation, an increase of world tensions, with further dissipation of the valuable benefits of international exchange and the efficiencies and economies of a world division of labor.

In the domestic economy, there would even be more proposals for direct price and wage controls. Such further interferences with the operation of the price system which is one of the great strengths of our enterprise economy would be catastrophic. The imposition of direct price and wage controls would also be economic nonsense in the face of the inadequacy of fiscal and monetary measures during late 1967.

Political Repercussions

And, what would consumer reactions be to continued price increases of an order of magnitude of 5 to 6 percent as compared to the sporadic 3-percent increases experienced during recent years? The public cannot blame business and labor forever for such price increases. At some point, the central responsibility of the Congress and its powers in influencing aggregate demand through fiscal policy will receive recognition.

Congressmen face a very great risk that the same public which has been urging against a tax increase in recent months will turn against their representatives for failing to anticipate the developments described. They will regret that their representatives did not provide leadership in avoiding developments that resulted in the highly regressive tax of inflation.

Such price increases would doubtless lead to further pressures for wage increases. In addition, such a price inflation represents increased costs to the Federal Government and increases in spending that exceed the increments to Federal spending increases of the type to which vociferous objections have been made in connection with the budget proposals for fiscal years 1968 and 1969. The resultant is certainly a very unattractive spiraling.

Have I overstated the case for the tax increase? I think not. The undesirable consequences are so great and the existing margin for error is so small, that the resulting risks to the economy are greater than Congressmen may appropriately expect their constituents to bear.

Leadership must be exercised to persuade our constituencies that the risks of no tax increase are too great to be continued to be carried. We must persuade them that it is in their own self-interest to make the difficult, but realistic choices at this time. If we wait until the facts are upon us, the actions will then be too late.

A War Tax and a War Economy

Must we give pause because of fears of recession after midyear? I do not believe that it is credible that a recession can develop in an economy on a war footing carrying on a $35 billion to $45 billion war in addition to other defense expenditures of the same order of magnitude.

If there were such indications of a softening of the economy after midyear, the war tax surcharge could readily be removed by Congress.