And the right signal, from their point of view, as they see it, has to do with taxes. We can argue this as long as we want, but that is a fact of the situation.

That is why I have made the suggestions outlined in my statement. They are, shall I say, tactical suggestions. They are suggestions on how to break the impasse we are in and get some action on spending and taxes.

Senator JORDAN. Primarily based on the necessity for a surtax at this time?

Mr. SAULNIER. That is correct.

But, what I am suggesting here calls for both expenditure limitation and tax increase.

Senator JORDAN. The proper blend of both.

Mr. SAULNIER. That is correct.

Senator JORDAN. Doctor, the American program to curtail new U.S. investment outflows to Europe will probably lead firms to make heavy demands on European capital markets.

Do you see the possibility that European funds now invested in the United States might be returned to Europe to help satisfy these and other demands for funds, thus offsetting the gain from the investment curves?

Mr. SAULNIER. I do not see that, Senator, as an immediate problem. My reason for that is that I believe the Western European central banks are going to take steps to ease their credit markets over there which will obviate this capital movement that you mentioned, and indeed they have already done so.

Senator JORDAN. Mr. Chairman, I believe I had better share the time with my colleagues here because of the shortness of Dr. Saulnier's time.

Chairman PROXMIRE. Senator Percy?

Senator PERCY. I thank my distinguished colleague.

I am very happy to welcome Dr. Saulnier.

Dr. Saulnier, if taxes are raised, what would be appropriate monetary policies for this country? Should the growth of money and credit be about the same? Should it be less or greater than it is now?

Mr. SAULNIER. I would hope, Senator Percy, that given agreement here on an expenditure policy, and given a tax increase, and given also no need to take this budget apart and put in a good many more billions of dollars with some more taxes to meet a situation in Vietnam, which I grant is giving quite a lot, but given these things, I would hope that as the budget deficit is reduced, with Treasury financing requirements lower, the Federal Reserve System will find itself in a position to move money supply increases back from the present 7 percent level to a level consistent with stable costs and prices.

However, I hope they do not undertake to do this overnight. They have got to do it over a period of time, and I would be prepared to see them take 2 years to do it.

It is just that I would like to see them get back on a trend of money supply increases that is consistent with stable prices.

Senator PERCY. Dr. Saulnier, the President's economic message virtually overlooked or avoided any detailed discussion of the effect of the war in Vietnam on the economy of this country. In fact, the first 26½ pages it was not mentioned. Only in the last paragraph, and