express preferences for reducing or eliminating particular programs I do not care for.

Chairman PROXMIRE. Thank you.

Now, I would like to ask both Mr. Schultze and Mr. Weston the following:

It seems to me that both of you gentlemen are expecting a surtax to do too much; that it will cure everything from falling arches to dandruff, as they say. It seems to me that it is going to do one of two things, at best.

It will either reduce the gross national product, reduce the number of jobs, reduce income and in doing so reduce prices, in which case it will not reduce interest rates very much and it will not reduce the deficit very much. If it does these things, it reduces income and prices and so forth, and it is not going to bring in as much revenue.

Or, on the contrary, it may reduce interest rates and stimulate housing and get about the same effect in the GNP and we had two very competent economists this morning who thought this is what would happen; it would not make any difference in GNP if you had an increase in taxes, but you would have a different mix; you would have more housing and less of other things.

If you did that, it would reduce the deficit because you would raise more money with it and it would reduce interest rates, as I say, but it would not accomplish what the President indicates is his principal purpose, which is to reduce prices.

Mr. SCHULTZE. The first thing I would like to do is disassociate myself from any belief that the surtax is as much magic in the fiscal field as a lot of people seem to think with regard to the rate of expansion in the money supply.

Admittedly, it is not going to cure warts. There are a lot of things it won't do. If I have been overenthusiastic, sobeit. It is not magic medicine.

I think it will, nevertheless, accomplish major public policy purposes.

Let us start, for the moment, whether you accept it or not, start as a base from which we can make changes, with the Council's forecast of the economy without the surtax in effect—a $60 billion-odd rise in GNP between 1967 and 1968. What would happen if you did not have the surtax?

Mr. Ture will quarrel with this, but for the moment I will forget that, and give you my two options.

They in a sense come out fairly close to yours, Senator, but the meaning is different.

One possibility is a very permissive monetary policy, such that without a tax increase you would maintain housing construction fairly close to what it would be with a tax increase by extremely permissive monetary policy.

This would mean a much more than $60-billion expansion in GNP, a larger rise in prices, et cetera. So, one consequence of this would be a very large rise in the economy over and beyond the $60 billion forecast by the Council. In turn, this would mean the deficit would not increase by the same amount as simply the amount of the tax.