

In other words, you would not go from an \$8 billion deficit to an \$18 billion deficit, because you would have had expansion in the economy.

That is one alternative line of development in which failure to enact the tax would mean substantially higher prices and incomes. Or, to put it conversely, the tax increase would have reduced prices and incomes from what they otherwise would have been.

Chairman PROXMIRE. The failure to enact will increase prices and incomes and revenues.

Mr. SCHULTZE. And revenues. You would not have had the deficit equal to the \$8 billion which you would get with the tax, plus you would not lose the full \$10 billion of the surtax, because the impact of failure to pass the surcharge would percolate through the economy in higher income.

Chairman PROXMIRE. Conceivably, if you have the reverse of the 1964 tax cut, you might even get a revenue situation which would be the reverse. You might, without increasing taxes, get more revenue than if you did increase taxes.

Mr. SCHULTZE. I doubt that; but let us assume it is a possibility. You would do it at the price of inflation.

If you kicked off a big enough inflation, yes, it could happen. I don't think you would kick off that big inflation. The only reason you would get back those revenues that the tax would bring in is that you have had a big enough expansion and inflationary expansion in the economy to generate inflationary rises in incomes and higher tax revenues.

So, you might end up with the same deficit with or without a tax, but at a heck of a lot higher price level.

I don't think that would happen; but this is what would be necessary—

Chairman PROXMIRE. This would be one possibility. It makes a pretty enthusiastic assumption on what this temporary 10-percent surtax is going to do to spending.

Mr. SCHULTZE. May I come back to that in a moment?

The second alternative possibility is that without a tax increase. Federal Reserve policy would be very much more restrictive, housing construction would fall off very substantially, you would not get a significant inflationary push of the economy as a whole, because you have taken your major adjustment out on housing.

That is the other extreme of the two possibilities.

The actual world would probably fall somewhere in between. One possibility would be a much larger rise in income and a very permissive monetary policy. The other would be not much more growth in GNP, because a very restrictive monetary policy would have pulled down housing.

I think the essence of Mr. Ture's point is, if I may express it, that the spending of consumers and business is very insensitive to temporary changes in income.

Now, I would fully agree that spending of consumers and businessmen is not anywhere near as sensitive to temporary changes in income as to permanently expected changes in income. I agree with that.