as Mr. O'Leary would predict, then you need a slow rate of growth thereafter for a short period of time.

That is a $76 billion increase. You would need some slowing down thereafter.

Finally, it seems to me there are two other points:

One, we are in a particularly fortunate position to hedge our bets. All of the demographic and income statistics that I have seen, as they relate to housing, would indicate there is substantial room for expansion in housing demand, given the situation where you could pursue the monetary policy and make it possible.

If you are wrong on the surtax, you do have an out here to keep the economy moving, which at other periods of time you might not have.

You are particularly fortunate so that you can hedge your bet, and it does not cost you very much. You have a good bet hedger here.

Finally, without attempting to forecast individual items, to continue this $15 billion deficit for 2 years in a row, even if you can't pick out precisely how it is going to hit particular sectors of the economy, it seems to me the burden of proof must be on those who say the private economy is so weak that you need this kind of deficit for 2 years in a row.

Chairman PROXMIRE. As you know, I prefer to reduce spending instead of a surtax.

Mr. Brock, would you like to ask some questions?

Representative BROCK. No. I am sorry. I have been involved in the gold-cover debate which we just passed.

Chairman PROXMIRE. Senator Jordan?

Senator JORDAN. No, Mr. Chairman.

This has been a very stimulating panel. I think I should not impose on them more. I have many questions. Indulge me just one question.

In order to attain full employment and reasonably full utilization of plant capacity, what do you regard as a tolerable degree of inflation?

Mr. SCHULTZE. I am not sure.

I got into an argument about this last night, as a matter of fact. I don't think that is a question that can be answered in the abstract. I think you have to ask in a given year, and in a given situation, in a particular situation.

Right now, I would say 3½ percent, because I know that just for the next 9 months to get the rate of price increase much below that would take very drastic unemployment.

Senator JORDAN. Do you regard it as tolerable in these circumstances?

Mr. SCHULTZE. In these circumstances, mainly because the actions that would have to be taken to pull that down substantially are a lot greater now than they might very well be under other circumstances.

If you ask me in 1969, or 1970, however, given time to gradually taper off, then it seems to me you could then have reasonably high employment with a much lower rate of price increase, not zero, but maybe 2 percent.