reducing programs with lower priority, greater flexibility would be provided, especially when military requirements arise to place more urgent demands upon budget resources.

We recognize that Federal programs must be responsive to urgent domestic problems that confront our Nation. For example, the Economic Report states: "We must deal more effectively with our urban problems. More and more of our people live in cities. Yet cities threaten to become less and less livable—unless we take decisive steps * * *." The life insurance business shares this concern and sense of urgency over the problems that beset our urban areas. Last September, we announced a program to invest $1 billion of life insurance investment funds to finance improved housing, increased job opportunities and needed services for low and moderate income families living in the blighted core areas of our cities. We believe that action to improve the quality of life in our cities should not be delayed and will require the efforts of private business as well as the government sector.

2. INCREASED TAXATION

Last August, the President proposed a program of increased Federal taxation to reduce the budgetary deficit. At that time, the life insurance business testified before the House Ways and Means Committee in support of the need for substantial spending cuts and a temporary uniform tax surcharge on both personal and cooperate income. We believe that enactment of a temporary tax surcharge is even more essential now and should be achieved at the earliest possible date.

Prompt passage of a tax increase could have an immediate impact on inflationary pressures by removing spending power from the private sector, with substantial effects on total demands on our economy. A tax increase would demonstrate to the world that we are willing to pay the rising costs of our defense outlays through taxation, rather than through inflationary borrowing. The urgency of our international payments problem also requires a prompt decision to increase taxes before the situation reaches a new crisis stage.

A tax increase can never be a popular measure. However, we believe that the public has not fully considered the alternative it faces—inflation arising from inordinate demands on our economy. We would urge passage of a temporary tax surcharge as an economic measure of the highest urgency, which is essential in the long-run interest of every citizen.

Without fiscal action to curb spending or increase taxes, the fiscal 1969 deficit could easily reach $25 or $30 billion, as described earlier. The tax measures proposed by the administration would reduce that figure by approximately $13 billion, leaving a deficit of $12 to $17 billion. If additional reductions in controllable budget programs can also be adopted, the deficit could be further reduced to a figure which would represent a more appropriate budgetary position in a period of rising private demands in a fully employed war economy. Moreover, a smaller deficit would lower Treasury borrowing requirements that would otherwise be extremely heavy, especially during the latter half of calendar year 1968.