excess demand and averting inflation requires that means be devised for putting the tax change quickly into effect and for assuring its termination at some point.

The essential condition for use of a temporary tax cut as an anti-recession instrument or a temporary tax increase as an anti-inflation instrument is that the Executive, the Congress, and the public at large should understand the functions that such a change would be intended to serve, the circumstances in which it would be appropriate, and the distinction between such a temporary change and basic, permanent revision of the tax structure.

However, basic revisions in the tax structure can also be timed to help solve current fiscal problems. For example, in April 1966 the CED advanced the concept of a value-added tax to add desirable fiscal restraint to the economy, to aid our balance-of-payments problems, and for the longer term to spur growth in the domestic economy by permitting a reduction in corporate income tax rates.

For almost 10 years, the United States has experienced a deficit in its balance of payments. Over that period of time it has become clear that the United States could improve its fiscal policy tools to assist in the solution of this problem. This lack of mechanisms with which to deal with the problem is in part responsible for the temporary interest equalization tax both at its original level and at its higher rates, for the voluntary capital constraints which have now become direct capital controls, the controls over foreign lending by financial institutions, the proposed taxes on travel, as well as the suggestion that we move to impose taxes on imports and rebates on U.S. exports.

In 1966 the CED suggested that discussions take place to establish the usefulness of a broadly based, low-rate tax on value added which is acceptable under GATT rules in stimulating both exports and domestic growth. If such an examination had taken place and such a tax were immediately available today it would contribute to our current objectives better than many of the alternatives now so hastily chosen. It could be used to restrain domestic demand and price inflation, and it would stimulate exports relative to imports and thereby lessen the need for the onerous direct controls on investment abroad as well as the proposed taxes on travel.

We do not propose the value-added tax now as a substitute for the income tax surcharge and expenditure restraint proposed above. These proposals should be adopted immediately, we do, however, once again call for a detailed examination of the role a value-added tax could play in the U.S. tax system.

Inflation and Voluntary Controls on Wages and Prices

We agree with the President and the Council in their belief that "inflation impairs economic efficiency, redistributes income capriciously, and weakens the Nation's competitiveness in world market." We also share their pronounced distrust for direct controls as a means of achieving price stability. However, we do not share their faith in the efficiency and effectiveness of voluntary controls over wages and prices. Wage and price guidelines are an attempt to make possible