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Recently London devalued the pound sterling by 14.3 per cent. This action had at least one highly beneficial effect. It set in motion a wind which has blown away some of the fog that has cloaked Johnson Administration budget information. The result is we are much better able to see where we are and where we are going.

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President Johnson did neither in 1966. He neither curtailed federal spending, nor did he seek a tax increase.

I am not going to examine the President's reasons for refusing to hold down spending or to ask for a tax increase in 1966. But I suggest this was a major mistake in fiscal policy which directly led to last year's upsurge in inflation, the highest interest rates in 40 years and to inflationary wage settlements which now further complicate the fiscal situation.

Let me interpret that phrase "inflationary wage settlements" for you. They are inflationary in the sense that the cost of the total package exceeds gains in productivity. It is difficult for a President to preach fiscal restraint if he himself is not practicing it. I do not blame the rank and file union member for what has transpired. In my view, the worker is reacting normally to the impact of inflation. The Administration is the villain of the piece.

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Mahon said at that time:

"In the last two years, for example, the defense buildup that began in mid-1965, including the Southeast Asia war effort, the inauguration of many new domestic programs, military and civilian pay increases, and increases generally in the cost of Government programs, resulted in an increase in unexpended carryovers between mid-1965 and mid-1967 of some $28 billion. In other words, this buildup in unexpended carryovers to be spent in years following the original appropriation results not from actions taken by the present Congress, but rather from actions of the last two sessions of Congress. These higher carryovers inevitably add to the level of spending in subsequent years, as is true, for example, with the current fiscal year."

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The Administration, as everyone knows, has engaged in a campaign to line up prominent businessmen behind a tax increase. The chairman of the board of one of the largest companies in the rubber manufacturing industry rejected such Administration efforts. I applaud such action. He feels, as I do, that the best weapon against inflation and high interest rates is a cutback in federal expenditures.

Those economists and business leaders who have endorsed the President's tax increase proposal should be having second thoughts. I say this because there is good reason to believe an income tax increase now could be more harmful than helpful.

Some economists presently are arguing against a tax increase on the ground it would be too damaging to the economy.

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I think it would be accurate to predict that if a tax increase is approved it would not complete its trip through the Congress until next March or April. This prompts Alan Greenspan of Townsend-Greenspan & Co. to say that a tax increase as late as April 1 would be "fiscal overkill." Tilford C. Gaines, vice-president and economist at Manufacturers Hanover Trust Co. believes a tax increase as late as April would fail to ease price pressures but definitely would curtail economic growth.

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My thinking is based in part on indications that we now are experiencing primarily cost-push inflation--increased production costs forcing business to raise prices where possible to offset a squeeze on profits. This contrasts with the situation in 1966 when we had basically a demand-pull kind of inflation--too much money chasing too few goods.

It escapes me how we would be acting to hold down prices if we raised the corporate income tax and thus added to the cost of doing business. As for the consumer, he might simply react to a tax increase by putting less of his income into savings and continuing to spend at virtually the same level. Thus consumer demand would not be appreciably dampened.

It appears to me that government spending restraint is the best way to deal with the present fiscal crisis. The Federal Government itself must set an example for business and the consumer.

I also suggest that the less loose talk there is about huge government deficits and runaway inflation the better. Such restraint in words and action should start at the top.

It does the economy no good for the President to talk about a $35 billion deficit when the outlook actually is for a deficit of less than $20 billion. As Hobart Rowen, financial editor of the Washington Post put it in a commentary on Dec. 3, "There is almost no description of the $35 billion estimate other than 'irresponsible.'"

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