

In view of these considerations, the apparent sluggishness of the recovery hardly comes as a surprise, and there is every chance of a downturn within the next 6 months.

But while the prospect of a downturn occupies the center of attention at the present time, it seems to me to be a secondary matter. The real problem is not so much the prospect of a downturn as the obvious fact that at the peak of a year of great prosperity we did not reduce unemployment below 5 percent of the labor force. This fact is underscored by the current abnormally low growth in the civilian labor force itself. Had the labor force grown by what I would consider a more normal annual rate of 1.2 million, instead of the projected 0.9 million, the rate of unemployment would be another half percent higher. Even at its best, the growth of production and employment has barely kept pace with the growth in the labor force. In the absence of action to the contrary, we may expect the level of unemployment in the next four quarters to again rise to over 7 percent of the labor force.

What accounts for this current sluggishness in the midst of prosperity? The answer is essentially this: The tremendous heritage of inflationary pressure from World War II made it essential to operate this economy with a tight tax brake, applied to control inflation. The defense buildup of the Korean period required the continuation of this tight tax brake. But the inflationary forces are now abating, and the brake is bearing directly on the level of production and employment. In my opinion, it is now time to release this brake and cut taxes.

The amount of tax cut required may be substantial. My calculations suggest that with the continuation of the existing level of Government expenditure, a cut in the personal income tax of \$10 billion would be expected to raise the level of employment by about 1 million jobs. Of course this means that in the traditional accounting definition, the Government will operate at a deficit, but the deficit will be substantially less than the \$10 billion of the tax cut. The expansionary effect of the cut itself will operate to recoup something in the neighborhood of 40 percent of the tax cut, and the so-called deficit amounts to only about \$6 billion.

I do not propose that a cut of this magnitude be made at once. So long as we are aware that larger tax reductions are probably necessary, we can ease off the brake little by little and find that point which is consistent with the maximum growth of the economy. In this way, we can use the fiscal power of the tax brake, together with the Government expenditure accelerator, for their proper purpose, to balance the growth of a prosperous American economy.

Chairman PATMAN. Thank you, sir.

Senator Douglas, we will start with you, and we will observe the customary 10-minute rule, if that is satisfactory with the committee.

Senator Douglas?

Senator DOUGLAS. I would like to start with a proximate issue, and not with basic issues.

The issue I want to ask about is the high incidence of unemployment among juveniles, to which Mr. Ellis referred, and which Mr. Wishart touched upon.