

even more fundamental measures of tax reduction and tax reform. On June 7, President Kennedy stated:

* * * our tax structure, as presently weighted, exerts too heavy a drain on a prospering economy * * *. A comprehensive tax reform bill * * * will be offered for action by the next Congress, making effective as of January 1 of next year an across-the-board reduction in personal and corporate income tax rates which will not be wholly offset by other reforms. In other words, it is a net tax reduction.

The President has also indicated the possibility of asking for earlier action on tax reduction if economic developments should require it.

Apart from the announced intention to recommend both individual and corporate income tax reduction effective January 1, 1963, unless adverse economic developments require earlier action, no decision has been made on the size, composition, and timing of a recommended tax reduction. But the basic case for easing the net tax drain on the economy, as well as the broad principles which should guide tax reduction, are reasonably clear in the light of our unsatisfactory economic experience of the past 5 years.

A reduction in net tax liabilities of both consumers and business spurs the economy's advance toward full resource utilization in three important ways:

First, it increases the disposable income of consumers. The statistical record indicates that consumers consistently spend from 92 to 94 percent of their total disposable income. And past experience also confirms that increases in such incomes are very largely and very quickly translated into higher consumer spending. As the private income released by tax reduction is spent, markets strengthen, production rises, new jobs are created, and incomes and profits rise accordingly. This generates added cycles of private spending and leads to further increases in output and employment. This process alone—the so-called “multiplier effect”—translates the original personal tax reduction into an increase in gross national product considerably larger than the reduction itself.

Second, by bolstering sales and pushing production closer to capacity, tax reduction stimulates investment in inventories and in plant and equipment, the so-called accelerator effect. This further expands gross national product, raises profits, and reduces the deterrent effect of excess capacity that since 1957 has plagued the economy and curbed expansionary investment.

Third, by reducing the Government's share of business earnings, tax reduction improves profit margins and increases the supply of internal funds available for investment. This strengthens both the incentives and the financial ability of businessmen to undertake the risks involved in new investment.

Decisions on size, composition, and timing of tax cuts will need to give appropriate weight to the following economic considerations:

1. The longer-term need for reducing the excess of Federal revenues over Federal expenditures that would be realized at full employment, a need that depends on:

- (a) The current size of the full employment surplus, estimated at \$7 to \$8 billion on a national-income-accounts basis;

- (b) Its prospective size in light of projected growth in Federal expenditures and Federal revenues as the economy expands;