sion which is clearly below the normal rate which the ordinary increase in the labor force and in the stock of capital would produce.

I believe I can best serve this committee and the formation of economic policy by talking about three things today. First, I shall report on some statistical analyses conducted in collaboration with Professor Duesenberry of my department and Professor Lintner of the Harvard Graudate School of Business Administration, about the general economic outlook and the effects of tax cuts.

Second, I shall analyze some of the reasons for our hesitancy to act, and finally I shall give a few preliminary ideas which may be of relevance early in 1963 when we shall face the tax-cut problem again.

PROJECTIONS

Two projections were prepared, not as forecasts but to provide a realistic setting for the evaluation of a tax cut. We projected movements of the gross national product to the middle of 1963 on two assumptions. One, an optimistic set, under which business spends as much for investment in plant and equipment as it said it would spend before the stock market declined; residential construction continues to rise substantially to a rate of $25 billion a year and then remains at that level; net exports remain high; the increase in the outlays of State and local governments continues at the upper end of the rates of increase of recent years; and the Federal Government spends as much on goods and services as it announced in the recent budget.

If all of these optimistic assumptions come true, an unlikely combination of events, gross national product might reach a level of $580 billion by the second quarter of 1963.

We also prepared a set of projections making restrained pessimistic assumptions. In this set we assume that fixed investment by business would begin to decline slightly after the middle of this year, and continue to decline at a moderate rate to the middle of 1963; residential construction maintains current levels; net exports fall slightly; State and local governments increase outlays at a high rate but not quite as high as under the optimistic set, and the Federal Government again sticks pretty closely to its announced plans.

This set of projections gives a gross national product of about $547 billion by the middle of 1963, which is slightly below the current level.

To gain some perspective on these figures, it is useful to estimate that rates of unemployment that are likely to be associated with them. Even the optimistic projection produces no significant improvement in the unemployment rate below its current high level. Under the projection of restrained pessimism, unemployment rises above 7 percent by the middle of 1963.

To see what difference a tax cut would make, we assumed that personal taxes would be cut $4 billion and business taxes on the order of $2 billion or so, enough to raise business investment by $1 billion. By comparing the resultant GNP figures with the above projections, the net impact of a tax cut was estimated.

We find that this $6 billion tax cut leads to an increase in GNP by the middle of 1963 of about $12 billion. If the tax cut is added to the optimistic projections, GNP might reach $592 billion. When added