

On the one hand, if economic growth really is a serious objective of policy, the tax system should be further changed in a manner designed to raise the fraction of our gross national product which is invested. On the other hand, consumer purchasing power must also be stimulated. In practical terms, this means that the tax cut must somehow be divided between reduction of upper bracket rates of personal and of business taxes and reduction in the lower bracket personal taxes.

We have already had a liberalization of depreciation allowances which will save business about \$2 billion a year. The investment credit which may be enacted in this session would add at least another billion-plus to business tax relief.

Thus, these two measures alone would reduce corporation income tax payments by \$3 to \$4 billion, thereby increasing the supply of investible funds. If further substantial relief is given in business taxation, while at the same time lack of growth of consumer purchasing power keeps the demand for final products relatively low, there is little chance that the additional savings being made available will in fact be invested.

Thus, a tax cut which only adds to savings may very well do more harm than good in dealing with the central economic problem of our day, which is the short fall of demand below potential supply. On the other side, increased international competition and the need for high long-term growth to meet our obligations requires us to take some additional steps toward raising the fraction of GNP which is invested.

The Congress would be well advised to take with a large grain of salt any advice which would confine the emphasis of a tax cut either to business investment alone or just to consumption. Obviously some balance is the right answer, and what that balance is will depend on the circumstances at that time. The higher the rate of unemployment, the more weight will have to be given to the short-run stimulation of demand, which is best accomplished by stimulating consumption.

Let me add at this point, that in the event that an extensive tax reform bill is going to be tied to a tax cut, it might be wise for the Treasury to get an immediate effect out of such a policy by reducing the withholding tax schedule effective January 1.

As I understand it, they have some administrative discretion about the amount of withholding which they insist on from the first of the year. If, in fact, it is going to be a tax bill which is debated well into the fall, if it is to have any economic impact as far as the short-run problem is concerned, it would be too late. I believe they have discretion to reduce withholding earlier, presumably on the assumption that the final tax bill would contain a tax rate cut.

In conclusion, the history of tax policy reveals one lesson very clearly: most of the time there are reasons for not engaging in a positive tax policy, or for at least deferring the decision over and over again. Our tax system is choking off the growth of the economy. The longer we delay its regearing, the more it costs us in terms of lost output, lost wages and profits, a permanently shrunk workweek, a resistance to technological change, permanently lost capital formation and just plain human suffering.