This package would meet the requirements of simplicity and size, and would have the added advantage of maintaining the present differential between top and bottom bracket individual income tax rates and between individual income tax rates generally and the corporate rates. It would also give the administration and the Congress the necessary flexibility to coordinate the proposed tax reform with permanent rate reduction.

The effect of this tax reduction on the budget for fiscal year 1963 would be much smaller than the full-year effect. I estimate that the deficit would be increased by approximately $6 billion before taking into account any recoupment from the effect of the tax cut on business activity. It should be emphasized, however, that this increased deficit in fiscal year 1963 would lead to a smaller deficit, or perhaps even a surplus, in fiscal year 1964.

Although the case for an immediate tax cut is strong, I realize that the odds against the enactment of such legislation during this congressional session are very heavy indeed. If Congress does not cut taxes this year, an alternative program should be devised to give the administration sufficient power to cope with the problems that may arise before Congress is organized and ready for action next year. In my opinion, a minimum program would include the following:

First, the President should be given the authority he requested early this year to make a temporary reduction in individual income tax rates of up to 5 percentage points. The cut would take effect 30 days after submission, unless rejected by the Congress. If the Congress is not in session when the cut is proposed, it would take effect immediately but terminate 30 days after Congress convened.

If the Congress is reluctant to yield this authority to the President on a permanent basis, it might extend the authority until the end of February 1963, when it will be organized to act quickly if necessary.

Second, provision should be made for the use of Federal funds to extend unemployment compensation benefits for a limited period to workers who exhaust their benefit rights under the regular State unemployment compensation laws. Similar legislation has been enacted during the past two recessions, and has proved to be an effective countercyclical measure. Since it is too late to process a permanent law, the temporary law which expired in April of this year should be reenacted for another year, for humanitarian reasons alone, if not for reasons of purchasing power.

Third, the capital improvements program for distressed areas which has already passed the Senate and is now being considered in the House should be enacted before Congress adjourns. The legislation is designed to provide funds especially for relatively small local projects on which work can be started quickly. The amount of money involved is modest enough to insure that the funds would be spent on useful projects.

Finally, the administration should plan now to submit a budget for the coming year that would yield a much smaller surplus at full employment levels of income than the surplus implicit in the budget for fiscal year 1963. Although it has been reduced somewhat since 1960, the full employment surplus for the first half of calendar year 1963 which is implicit in the current budget is of the order of $10 billion (on a national income basis).