

be very helpful, of course, but we might set 47 percent as an interim goal. Also, we should eliminate the near-confiscatory rates imposed on the upper brackets of individual income.

Again, I would like to see these reduced over a period as contemplated in the Baker-Herlong bill, but 50 percent would be a reasonable interim goal.

Quite apart from other effects, these tax changes would be tremendously helpful to our 4 million small- and medium-sized business concerns. The task we face of providing jobs in this decade for a rapidly increasing number of young people is going especially to require a vigorous body of small- and medium-sized companies. Many will find employment in large nationwide organizations, but we should leave no stone unturned to help the small- and medium-sized companies in which large numbers of young people will find their most interesting and rewarding employment opportunities.

Third, although I want to see us do every bit of constructive, growth-promoting tax reducing that we can do, I believe we should limit what we do to what can be counterbalanced, in its immediate revenue-reducing effects, by expenditure reductions and possibly by some sales of Treasury-held financial assets.

If rate reductions of the type I have proposed promote growth to the extent that I think they will, they will eventually pay for themselves, but in the interim we should plan to pay for them in some quite tangible way.

I suggest that we go about the task of financing constructive, growth-promoting tax cuts as follows:

(1) As guidance for the fiscal 1964 budgetmaking process the President should set a ceiling on Federal spending. This ceiling should not be higher than the projected spending level of fiscal 1963 and if possible should be lower.

(2) With that ceiling as a preliminary guide, an effort should be launched at once to reduce spending on low-priority programs. The economies achieved from this budget review need not go exclusively to financing tax reductions. On the contrary, they might be divided about 50-50 between this purpose and increasing expenditures on truly high-priority programs. By high-priority programs I mean those that give clear promise of enhancing our capability for achieving a vigorous rate of economic growth.

(3) Although I would depend mainly on the reduction of low-priority spending to offset the immediate revenue cost of tax reforms it should be possible to offset some part of this budgetary impact from the proceeds of the sale of portions of the huge amount of financial assets which the Federal Government has accumulated over the years under its various direct loan programs.

It was estimated in the January 1962 budget message (special analysis E) that outstanding direct loans of major Federal credit programs at the close of the fiscal year 1962 would come to nearly \$27 billion. Obviously, one should not press a program of this kind too hard lest it raise borrowing costs in the long-term capital markets. But it should be possible to distribute significant amounts of these assets on terms that would be fully protective of the public interest and without any material effect on long-term borrowing costs.