

or that 95 percent of them, are going to get any real relief from a reduction in the corporation income tax. I think from the standpoint of growth perhaps you would justify it, not from the standpoint of helping most of our small businesses.

Mr. SAULNIER. I am afraid I cannot agree with you, but for the moment I would like to pursue the point of agreement that I have with you, which is that the growth of small- and medium-size businesses is financed mainly out of the income which they make themselves and retain, and the amount of income which they can retain out of what they make, whether they are corporations or whether they are partnerships and taxed as individuals, depends in large part on the tax rate. A lowering of that rate, including the high rates on individual income, would assist small- and medium-sized concerns in retaining income which for the most part would be reinvested in the business.

Now, a large company, a very large company, also depends on retained income, but at least they always have the option of capital market financing, which the small company normally does not have.

Senator PROXMIRE. You could not be more correct on that, but the figures do show that 70 percent of the net income of corporations are those very few firms with incomes over a million dollars a year. They are going to get the main benefit of this particular tax cut, but you are absolutely right, there is no other way that a small business firm can grow by and large except by reinvestment of earnings.

Mr. SAULNIER. Precisely.

Senator PROXMIRE. I would like to pursue the question a little bit that Congressman Reuss asked because I am puzzled by it, and I think there is an interesting contradiction and conflict between you and Dr. Keyserling on this, and that is that you say that business investment seems to be the principal weakness of our economy and we must stimulate private business investment to really move ahead. At the same time your prescription for a tax cut would be a tax cut that would primarily increase business cash flow, and you say that you would reduce Government spending so that there would at least be no aggregate increase in the deficit.

Mr. SAULNIER. Low priority Government spending.

Senator PROXMIRE. Low priority Government spending, and you would follow a policy of keeping wages in some restraint. At least you would make sure that they do not exert any upward pressures on prices. I think it is a very pregnant question, in view of the full documentation that Dr. Keyserling has given us this afternoon, in which he has given us data that I think is very hard to refute without contrary data. How is this going to enable the economy to move? How can you do it? The fact is, as a number of witnesses have testified here, there has been ample cash flow, plenty of money available, and many of the biggest firms have so much cash available that it is almost embarrassing. General Motors is an example of this. Why should more of the same be the answer under these circumstances?

Mr. SAULNIER. For the reason that I think a tax policy that would have a greater effect in promoting investment expenditures, and which would permit the funds to be retained out of which that expenditure could be financed, would result in a higher level of investment spend-