

and from 90 percent to 85. It is 5 percentage points. In my opinion this action is overdue. In making this recommendation I believe permanent adjustments and reductions should be made in individual as well as corporate taxes immediately after the first of the year.

Although corporate profits after taxes are today virtually the same as they were 10 years ago, the funds available for capital expenditure have increased about 75 percent during the decade. This provided increases of 400 percent in research and development, 80 percent in new plant and equipment, and 50 percent in dividends. The broad increase in depreciation and depletion has largely made this possible. Therefore, although I would favor a reduction in corporation income taxes next year, this would do little at this time to encourage capital expenditures that would otherwise not be made.

Business, generally, has ample funds for expansion, or available unused credit. Capital expenditures by corporations largely depend upon an increase in demand for their products, or competition which induces them to make capital expenditures to reduce their costs. Such expenditures are seldom made just because of confidence. Confidence is an effect and not a cause.

Consumer spending is the propulsion that generates the demand for goods and services which is the justification for capital expenditures and growth. Therefore, a reduction in individual taxes, I believe, is called for at this time. Such a reduction would be much more effective than an increase in public expenditures. An increase in public expenditures and corporate capital expenditures are slow to get underway. It is desirable for the individual to spend his income himself, rather than have the Government spend it for him. Further, it is more likely to get immediately into the spending stream. This does not mean that I do not recognize the necessity for a continuing and expanding Government program of expenditures to meet the economic and social needs that private capital cannot provide.

I recognize that any tax reduction program at this time will increase the Federal deficit. However, with the excess supply of goods and services and foreign competition I do not believe this will be inflationary. On the contrary, it should prevent a recession and stimulate growth.

The Federal deficit, under present conditions, should be financed, as far as possible, outside of the commercial banking system. This would help maintain confidence in the dollar. The long-term interest rate paid by the Government must be high enough to compete in the capital market with mortgages and corporate financing. Short-term rates should be high enough to keep the large amount of short-term foreign funds in the U.S. market.

I know that in a recession or in an economy that is not growing, an easy money policy is the desirable type of policy to pursue. I recognize that to have funds pressing on the market does not necessarily mean they are going to be used, but it does mean they are creating a favorable climate for their use. But under the present circumstances, it seems to me that we can't ignore the international situation when considering monetary and credit policy.

I strongly feel that Federal expenditures are unjustifiably increasing in many categories. The public is not getting value received. This I believe is especially true of the rapidly expanding military