This requires that our productive plant and machinery be modernized and expanded. The skills and initiative of our workers must be better channeled into constructive effort. Domestic demand must also grow to provide markets for increased productive capacity. And foreign markets must not be closed to us, either by insurmountable tariff barriers or by increases in our own price level.

The financial policy of the Federal Government will be one of the vital factors in shaping our progress toward these ends over the years ahead. Within our overall financial policy, tax policy can play a particularly important role.

Federal income taxes today absorb fully 15 percent of our total national income. The sheer size of these taxes and the way they are levied—the tax rate schedules, their application to different sources of income, the maze of special provisions—all exert a pervasive influence on economic activity.

It is the joint responsibility of Congress and the Executive, while raising needed Government revenues, to use the taxing power constructively to facilitate progress toward our goals of full employment, rapid growth, and stable prices. It has become apparent in recent years that some elements of our tax structure are impediments in our path to those goals, impediments that in many cases can and should be removed.

Four distinct problems have urgently called for reform:

(1) Our tax structure has placed a heavy burden on the productive investment so vital to the growth process.

(2) The current rate structure siphons off so large a fraction of the increased income generated by business recovery that forward momentum is dissipated before full employment and full utilization of industrial capacity can be reached.

(3) Overly high rates of individual income tax interfere with the economic process. Energies and resources are diverted from the business at hand and concentrated on minimizing tax burdens through the use of a patchwork of special deductions and exclusions, built up over the years to lighten the burden of our onerous rate structure.

(4) Our tax system today lacks provision for flexible and timely adjustments to meet swiftly developing changes in the overall level of economic activity.

One of the major objectives of this administration has been a tax environment more conducive to business investment in new equipment. As a first step toward this objective, the Treasury has overhauled depreciation guidelines within the framework of existing law.

This reform—the first thoroughgoing review in a generation—recognizes fully the impact of swiftly changing technology of the economic life of equipment, and permits individual businesses to establish schedules in keeping with objective measures of their own replacement practices.

Depreciation deductions permitted for manufacturing machinery and equipment will be increased by an estimated 17 percent from existing practice; the current tax load will be lightened by an estimated $1.5 million the first year; and administrative procedures will be greatly simplified.