additional borrowing, which has put pressure on interest rates and on the money market.

There is an excellent article in the July-August 1967 issue of the Harvard Business Review which analyzes in depth the effect of acceleration of tax payments on corporate liquidity and corporate borrowing. With your permission, Mr. Chairman, I would like to submit a copy of this article for the record.

The CHAIRMAN. Without objection it will be included at the conclusion of your remarks.

Mr. KUST. In our own case at Westinghouse the speedup of tax payments depleted our cash in 1966 and in 1967 by $70 million at a time when it was already necessary for us to borrow money to finance modernization and expansion of facilities. It seems perfectly clear that had these additional tax payments not been extracted from us we could have reduced our borrowing by the same $70 million.

Given the present state of cash shortages in corporations, any tax increases or further payment speedups will almost certainly be very substantially reflected in additional borrowing, thus, further increasing pressure on interest rates and the availability of money.

If, on the other hand, increased tax burdens on corporations should be reflected in decreased investment rather than increased borrowing, the purpose of averting inflation by tax increases would not in the end be achieved.

Expansion and modernization of productive capacity as the basic foundation for increasing productivity to support the prosperity of the Nation and the growing commitments of Government is, in final analysis, the best protection against inflation.

It seems clear that the speedup of corporate tax payments in 1966 and 1967 now presents a problem. It created a temporary bulge in revenues which we find must now be made up from other sources. It depleted corporations of cash so that they are now less able to absorb a new tax increase without borrowing or curtailing investment, both of which ran counter to the desired objective of reducing the pressure on interest rates and on price levels in general.

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I do not have the courage to say that given this history, taxes on corporations should not now be increased. Whatever economic wisdom may suggest, political realism would seem to dictate that if individual taxes are to be increased, corporate taxes must also be increased. But certainly they should be increased no more and no earlier.

In any event, it seems to us wholly unjust and economically unwise to compound the imbalance that has already been created by imposing the surcharge retroactively on corporations and prospectively on individuals. If Congress deems a surcharge necessary, the effective date for individuals and corporations should be the same. Given the present continuing uncertainty in the economy, that date, in our judgment, should not be earlier than January 1, 1968.

Thank you.