

(d) there should not be at this time any further speedup of corporation tax payment, either by increasing the percentage of current payment for liabilities in excess of \$100,000, or by beginning to require current payment for liabilities up to \$100,000.

Second, a temporary surcharge as enacted should be at a considerably lesser rate than the 10 percent proposed by the President.

Third, a moderate temporary surcharge effective at an early date could be more useful in restraining a new inflation than a larger surcharge effective at a later date, and would be easier for the economy to digest.

Fourth, as a rough guide, it would seem that the executive branch and the Congress should seek to achieve expenditure reduction—beyond the items mentioned by Budget Director Schultze last week—in the range of the revenues provided by a moderate surcharge.

DISCUSSION

To some, it might seem that the views I express are special pleading for corporations, but such is not the case. These views are special pleading to keep the way open for a resumption of strong growth which is the only means for constant addition to the total of high quality jobs in the private economy.

Because the President's tax proposals would add more to corporate than to individual tax bills at this time, and because there are some who voice a desire to go further than the President, it has seemed important to me to give attention to some fundamental aspects of this problem.

The fiscal and economic facts presented to you last week by administration spokesmen clearly indicates that the kind of tax increase needed at this time is one which would, because of excess public demand already present, restrain a growing total demand from catapulting us into inflation while we get back on the track of high level growth. Except as a later result of a new wave of unabated inflation, there was no indication of any fear of excesses developing in business investment spending. To the contrary, the view seemed to be that this spending would continue on its present plateau for a time, in contrast to the sharp rises expected in personal income and sales. It was conceded that enactment of the program as presented actually would reduce business investment spending by about \$1 billion over the last two quarters of this year. If a similar reduction were repeated in the following 6 months, this critical area of spending would be back to approximately the level of 1966.

The major source of new funds to finance business expansion is retained earnings; that is, profits after tax less dividends. Profits provide the inducement as well as the major means for business expansion. Strong economic growth inevitably is paced by good and rising profits. Total corporate profits showed a little improvement in the second quarter, but the annual rate is still about \$3 billion behind that for all of 1966 and \$5 billion behind the peak rate in the fourth quarter of 1966. While there is an underlying expectation of improvement in profits as the increase in growth of incomes and sales takes place, heavy wage settlements hang over the marketplace and we may be facing a situation in which something has to give.