

but, unfortunately, our present fiscal condition, growing Federal debt, and the need for prompt temporary action make it unwise and impossible to consider any important changes in our basic tax structure.

We should recall as a matter of record that our economic history shows clearly that in the long run the economy is more efficient and more productive with tax cuts and a lower tax structure than we now have to bear.

The reason that the economy is more efficient with lower taxes is no mystery. Our society is made dynamic through the profit motive. If individuals and businesses are allowed to retain a larger percentage of the reward for their skills and the use of capital, the whole society benefits. It is just as fundamental and just as simple as that.

Let us remind ourselves that tax cuts have proved the way to more employment and growth. This was first demonstrated in the twenties. Failure in 1957 and 1958 to make a tax cut was one of the reasons for our slow rate of progress. The reduction in taxes in 1964 was an important reason for the development that followed. To argue that we should return to a high tax basis because we once had one is bad reasoning.

Why does CED recommend a tax increase in the face of this history? We do it in the context of a present fiscal and monetary situation which is compelling despite the harm that high taxes do in the long run. Since the winter of 1965-66 our country has had high employment.

Various CED studies since 1947 have concluded that under such conditions the Federal budget should produce a surplus and not a deficit. Again, under the given conditions by far the better choice is reduction in expenditures rather than a tax increase. Neither action has been taken.

CED recommended in December 1966 that if the administration and the Congress could not find a way to reduce or postpone expenditures, the unpleasant choice of a temporary tax increase should be made. The tax increase was recommended strongly on a temporary basis with an early terminal date. It was urged that the tax increase be of the simplest character with no changes in the fundamental structure. This action was not taken, and as a result much harm has been done to the economy, especially to the price structure.

A tax increase promptly enacted cannot do all the things we need in terms of avoiding further damage to the country. A tax increase may not restrain inflation unless other measures are taken.

We are confronted with wage and other cost increases of great dimensions. A tax increase will not guarantee that we will have lower interest rates for the reason that today's interest rates are influenced by the inflationary threat and liquidity preferences and not solely by the supply of and demand for money in the current market.

In other words, interest rates, while basically reflecting supply and demand, reflect the deterioration which is possible in the future buying power of money. The relative shortage of mortgage money reflects this as well as the serious increase in land prices and the wage demands of the building trades, all of which are handicapping housing development.

A temporary tax increase may help but will not solve the problem of the country's balance of payments. Other things must be done.

With this catalog of limited gains, why should we advocate a tax increase? We should do it for three reasons.