

From a technical standpoint, it is evident that the personal income tax offers distinct advantages. In view of the recognition and legislative lags, of which we spoke earlier, it is highly probable that contracyclical tax action will be taken late—at least in relation to the optimal timing. It can normally be expected to await the actual realization of the conditions it is intended to combat. Under these circumstances there are obvious gains from the use of a tax instrument that minimizes the response lag.

Since it takes several months for corporate tax changes to generate a substantial production response in the capital goods area, and the better part of a year for a complete response, these changes should lead by a substantial interval the attainment of the target conditions. If they do not—and there is practically no chance they will—there is considerable risk that the impact will come too late.

This may not be serious in the case of stimulative action (there should be time to turn around before the next capital goods boom), but it certainly can be so when the action is restrictive. If it comes in the mature phase of a boom, when capital goods commitments have started down spontaneously or are about to do so, it will only aggravate the subsequent decline in production. Even if the action is reversed as soon as the decline becomes evident (and this is unlikely), it is bound to be too late to prevent unnecessary liquidation.

The moral of this discourse, at the very least, is that contracyclical tax action should not be employed without careful regard for the lead time involved.

It should be conceded that the administration apparently views its 6 percent surcharge recommendation as a tax to finance the Vietnam war and contain the budget deficit, and perhaps only secondarily in a contracyclical context. However, the effects of such tax action on the economic picture cannot be ignored and we are sure the administration will weight economic indicators heavily in its final judgment on whether to push for the 6-percent surcharge.

The prospect of aggravating a capital goods decline and perhaps a general recession is therefore a very real problem.

*The whole is greater than the sum of the parts.*—Turning to more general tax questions, either deliberately or by happenstance, government takes tax actions on a piecemeal basis. This blurs the effect on the viability and resources of business. Some of these actions are quite significant by themselves, but cumulatively they take on an even more deadly significance. It is frequently overlooked in this connection that, for example, a further social security tax rate increase went into effect on January 1, 1967, the new rate being 4.4 percent each for employees and employers and further increases are already scheduled by law. In addition, it is generally conceded that a substantial rate increase and/or enlargement of base will be enacted by the Congress in response to the President's recommendations made in January. It clearly is illusory to treat the social security tax as anything but a part of our total tax burden.

This committee is of course familiar with the substantial acceleration of corporate income tax payments so that in 1967 under the law passed in 1966 corporations are required to be on a current basis, paying taxes quarterly against an estimate for the current calendar year. Now the President proposes an increase from 70 to 80 percent in the relationship the corporation's estimated tax for any year must bear to its final tax liability. In an action with similar effect, in 1966 corporations were required to pay over to the Government on a semi-monthly basis rather than a monthly basis withheld employee income taxes and social security taxes. Other proposals such as the question of integration of pension plans with social security, an increase in the costs of the unemployment compensation system, and of course