

It is not our purpose in this statement to enumerate and to describe in precise terms all the tools that should be in a kit of selective fiscal and monetary measures. We seek instead merely to show that we need not remain prisoners of market forces and that selective measures can be devised which are fully compatible with freedom. Outlined below are a number of suggestions (which could undoubtedly be improved upon) intended to illustrate those points. These suggestions are designed to guide the flow of resources rather than to coerce individuals. Other illustrations, with particular pertinence at this moment, are presented later in this statement as alternatives to the proposed income tax surcharge—which seems to be directed mainly toward preventing an unsustainable investment boom.

INVESTMENT RESERVE FUND

Restraining unhealthy investment booms, however, is only half the job of keeping levels of investment on an even keel. Equally dangerous to the economy is the sharp drop in investment which normally accompanies a recession and helps prolong it. What is needed here is a special inducement to businessmen to invest at such times, as well as to refrain from investing when the economy is threatened with overheating. Such inducements can be provided through the operation of an investment reserve fund such as has been established in Sweden.

In Sweden, a corporation is permitted each year to place up to a given percentage (the figure was 40 percent not long ago, but may have been changed) of its before-tax profits in a special investment reserve. No tax is paid on the funds going into this reserve, but a portion of it equal to the profits tax that would normally be paid must be deposited in a special non-interest-bearing account with the Central Bank.

In a year when the government determines that the economy is in need of an economic stimulus, it may permit all or part of these reserves to be withdrawn for the purpose of financing investment expenditures, and a corresponding amount of the money deposited with the Central Bank is returned to the company. The company is always free to withdraw its funds from the investment reserve, but if it does so at a time when the government wishes to discourage investment it does not get a return of the money deposited in the Central Bank. Instead, all or a portion of that deposit, equal to the normal profits tax on the amount withdrawn from the reserve, is forfeited. Thus, in effect, if the company restricts its investment of the portion of its profits subject to the reserve fund machinery to a period when the economy requires such investment, that part of its profit is free of tax; but if it chooses to invest those profits at any other time, it must pay the normal tax on them.

PROGRESSIVE SPENDING TAX

If the economy should become so overheated that measures to reduce consumer spending are necessary, there are methods of doing so much more equitably than through an across-the-board increase in the income tax. One of the deficiencies of the latter is that it taxes income which would otherwise be spent for necessities, as well as income that would be spent on luxuries. As an alternative, a progressive spending tax, which the Treasury proposed during World War II and the UAW