

consumer expenditures without inflation. Consumer expenditures have been quite stable as a proportion of the national product—but only with inflation. We think the problem of maintaining consumer purchasing power for increased consumer goods and services without inflation is directly related to the issue of tax reform.

In addition, in the midst of inflation, we continue to have “pockets” of hard-core unemployment and serious “pockets” of poverty amid affluence. Continuing unemployment is always a waste in any form. We think the new Council has correctly made a decision that a discriminating expenditure policy is required here, too, as compared with some “dosage” of fiscal policy. Both the unemployment and the poverty problems are also related, in our mind, to tax reform.

The present revenue level from individual income taxation can be retained with considerable shifting in the progressivity of the individual rates. We feel that this should be done on a basis which would allow negative income taxation at poverty levels, exemption from income taxation on family incomes between \$3,000 and \$5,000 a year, the imposition of a minimum tax on all income above a reasonable level, and the application of higher marginal rates at high-income levels.

We think the corporate income tax should be overhauled as well. For one matter, the existing rates are considerably overstated on the basis of current depreciation and depletion guidelines. These were a part of an earlier tax reduction and recession-induced expansion program, and are contributing to the present inflation. In particular, the continuation of the oil depletion allowance is scandalous and an affront to the poverty ridden, not only of the United States, but of the world.

Higher corporate income tax rates will reduce the level of investment expenditures and induce more careful use of resources. If higher individual income tax rates on higher incomes are to be put into effect, some partial exemption from a higher corporate tax rate schedule could be given to distributed corporate profits (dividends). The latter measure might alleviate a number of the current pressures in the money market. However, if the latter effect is not forthcoming, we feel there is an urgent need for Federal subsidization to lower interest charges on housing and residential construction. Investment in these areas has been drained by high profits elsewhere.

While we agree that tax credit for investment in training and education of the unemployed through private enterprise is a nice idea, we feel that this would become a very unwieldy mechanism, and we are in serious doubt as to the interest of private enterprise in this particular problem. On the other hand, direct cooperation between Government and private enterprise will be a necessary base for solutions to the problems of the hard-core unemployed.

We would hope that movements in these directions could be a substantial step toward dealing with some of our more vexing domestic problems.

Finally, we offer some comments on the balance-of-payments problem. It seems clear that the various measures undertaken during 1968, including direct controls on foreign investment, the cessation of gold shipments for private markets among the gold pool nations, and the ending of the gold-backing requirement for U.S. currency, have temporarily allayed any immediate balance-of-payments crisis.