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TAX CHANGES FOR SHORTRUN STABILIZATION

A REPORT

OF THE

SUBCOMMITTEE ON FISCAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

TOGETHER WITH

SUPPLEMENTARY AND DISSENTING INDIVIDUAL VIEWS

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LETTERS OF TRANSMITTAL

MAY 24, 1966.

To the Members of the Joint Economic Committee:

I am transmitting herewith for your use, and for the use of other interested Members of Congress, a report on "Tax Changes for Shortrun Stabilization" by the Subcommittee on Fiscal Policy, together with supplementary and dissenting individual views.

Sincerely,

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

MAY 23, 1966.

Hon. WRIGHT PATMAN,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is a report of the Subcommittee on Fiscal Policy on "Tax Changes for Shortrun Stabilization," together with supplementary and dissenting individual views. This report summarizes the subcommittee's conclusions from hearings held in March on the use of prompt tax changes for countering inflation and unemployment.

Statements received and testimony taken in the hearings have been very helpful to the subcommittee in formulating its conclusions. We wish to thank those who appeared or submitted statements for their interest in this important subject and their responsiveness to the subcommittee. The subcommittee is publishing the record of the hearings from a belief that the excellent contributions made by the participants significantly advance discussion of stabilization issues and will be of general interest.

Sincerely yours,

MARTHA W. GRIFFITHS,
Chairman, Subcommittee on Fiscal Policy.

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REPORT ON TAX CHANGES FOR SHORTRUN STABILIZATION

At the outset we wish to stress that the subcommittee's assignment was to study the practicability of a permanent improvement in our tool chest of stabilization measures. Although the subcommittee did not direct its study specifically to the current economic situation, interest obviously exists in the possible applicability of the principles and findings contained herein to the current situation. We have made every effort, however, to insure that our exploration of stabilizing fiscal policy is of permanent benefit to the Congress, the executive branch, and the public. With this in mind, we directed our attention not only to those conditions where it may be desirable to take restraining action but also to those in which the Government should move to stimulate activity as an offset to impending recession.

For years there has been increasing criticism of established procedures for changing Federal taxes on the ground that the time consumed by the process seriously reduced the possible usefulness of tax changes as a stabilization tool. Acknowledging the continued need for more lengthy consideration of fundamental tax reforms, we have become aware increasingly of the importance of speed if tax changes are to be used for shortrun stabilization purposes. Debate along these lines led in 1962 to President Kennedy's proposal that the President be given standby authority to make temporary reductions in personal income tax rates, subject to congressional veto. Opposition to this proposal led to more recent suggestions for various types of improvements in congressional procedures to speed consideration of tax changes for shortrun stabilization purposes.

In its 1966 Economic Report, the Joint Economic Committee directed this Subcommittee on Fiscal Policy to begin immediate hearings on the desirability and feasibility of a permanent standby tax measure, designed to permit greater flexibility in fiscal policy. As we understood the assignment, the subcommittee was to consider techniques and procedures for maintaining aggregate demand equal to capacity supply through prompt variation in tax rates. Demand being always equal to capacity supply, there will be neither upward pressure on prices from an excess of demand over supply nor unemployment from a deficiency in demand relative to the supply which could be provided with labor and capital fully employed.

Accordingly, the subcommittee held hearings on "Tax Changes for Economic Stabilization." The issues as they were propounded to the witnesses by the subcommittee were as follows:

1. Contribution of rapid tax changes to stabilization: Do we need to be able to react more promptly to changing economic stabilization requirements? What economic effects are likely to be associated with rapid tax changes?

2. Criteria for such tax changes: What principles should govern the design of such tax changes? Should the changes be neutral, and

what is neutral change? If not, what specific nonneutralities with respect, for example, to relative impacts on various classes of taxpayers and types of income, and on consumption and investment should be provided? Do criteria for the changes vary with circumstances?

3. Technical design: What types of changes in which taxes should make up the total tax action? Can suitable changes be composed from existing taxes or do we need new taxes for this purpose?

Can Rapid Tax Changes Contribute to Economic Stability?

The first question before the subcommittee was whether faster action on changes in Federal taxes would contribute to economic stability. The answer depends both on the objectives of national economic policies and on the characteristics of the various policy tools available, including tax changes.

The national economic objectives stated in the Employment Act [1] are sometimes paraphrased as calling for achievement of full employment, rapid economic growth, and price stability. The act pledges the Federal Government "* * * to coordinate and utilize all its plans, functions, and resources * * *" to create conditions favorable to the attainment of these objectives within the free competitive enterprise system, working in cooperation with private interests as well as State and local governments.

The "tool chest" of stabilization measures, therefore, includes all Government policies and programs ranging over matters as diverse as antitrust, regulatory activities, and monetary policies in addition to fiscal plans and policies. Broadly speaking, economists classify Government policies affecting the economy into two groups: (1) "automatic stabilizers" that respond appropriately to changing economic conditions without explicit shifts of policy by Government officials; and (2) "discretionary policies" that involve deliberate choices among alternatives by officials whenever economic stability and/or growth appear to be threatened.

The automatic stabilizers include unemployment insurance, old age pensions, guarantee of bank deposits, and a tax system whose revenues rise and fall more than proportionately with changes in private incomes and expenditures. The discretionary tools are monetary, debt management, and fiscal policies, including both tax and expenditure changes.

The present inquiry is concerned with one narrow aspect of this latter group of discretionary policies, that is, changes in taxes. To determine whether increased speed of action would increase the chances for successful use of the tax changes for stabilization purposes, one must understand the process of discretionary policy action. First and foremost, there must be a satisfactory system for measuring the performance of the economy and the influence of existing Government economic policies, both automatic and discretionary, so that Government officials can detect the development of conditions which threaten the continued stability and growth of the economy. This step involves initial collection of raw data from firms, households, State and local governments, and Federal agencies. These data must be processed into manageable aggregates, such as industrial production, em-

[1] Public Law 304, 79th Cong., 20 Stat. 23, sec. 2.

ployment, gross national product, and the like. Finally, the data must be analyzed to reveal their implications for future developments.

Second, decisions must be made concerning what changes in Government policies would contribute most to maintaining economic stability and growth in the light of the conditions which are revealed by stage 1.

Third, decisions taken with respect to desired changes in policies must be implemented.

Fourth, the economy, with more or less delay, reacts to the change in policy.

Finally, the reporting system begins to feed back information as to whether the results were as desired.

It must be obvious that there are ample opportunities in this chain of events for substantial lags to develop. It takes time to gain information, process it, and analyze it. This is sometimes called the recognition lag. It takes time to decide among various alternative policy changes in response to a recognized problem and it takes time to carry out the decision. Finally, there are obviously opportunities for substantial lags between the time at which action is taken and the time its full effects are felt by the economy. This sequence of delays is a prime reason why there has been such heavy emphasis among many experts on the importance of maximum reliance on the automatic stabilizers, which by short circuiting the recognition and decision lags, react more immediately to the development of destabilizing conditions in the economy.

It should be clear also from this description of discretionary decision making that there is a real difficulty to which the proposals for quick tax action are directed. The very delays that are explicit in the practice of discretionary policy mean that the effectiveness of a policy depends upon the speed with which (1) the stabilization requirement is recognized, (2) the decision is taken, (3) the new policy is brought into effect, and (4) the changes take effect on private spending. The quicker the response, the sooner the Government's policies will be operating to offset incipient instability in the private economy.

In view of the difficulties and delays involved in recognizing the need for policy change and putting the change into effect, there is a great advantage in constant efforts to improve automatic stabilizers which avoid these difficulties. Whenever changes are considered in tax and expenditure programs, *consideration needs to be given to the effect of these changes upon the automatic stabilizers*, and we should seek to develop more efficient built-in stabilizers insofar as this is consistent with other criteria of tax and expenditure programs. Nevertheless, even after the best has been done in this direction we still need both improved procedures for detecting incipient instabilities in their early stages, better prediction of the probable effects of various policy alternatives, better fiscal policy instruments, and, *lastly, improved procedures for putting them into operation quickly.*

There is, however, one distinct conflict between the requirements for stronger automatic stabilizers for shortrun purposes and the policy requirements for longrun stability and growth. As the economy grows, Federal revenues rise more rapidly than total incomes. This longrun tendency of Federal receipts to rise to larger and larger percentages of the national income exerts a depressing effect on growth

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unless the persistent rise of revenues is offset periodically either by increases in expenditures or by reductions in taxes.

The implication of these characteristics of policy tools for stabilization is that there are two possible types of situations in which speed of action may be desirable. First, the growth of the economy may from time to time produce such a growth in receipts relative to expenditures as to threaten the continuing growth of the economy. This may occur sooner than anticipated and threaten to produce an economic downturn unless quickly corrected. Alternatively, shifts in Government responsibilities, international or domestic, may produce the opposite situation so that the economy is threatened with substantial and continuing inflation. In either case, quick adaptation of the tax policy to the new situation is necessary.

The second type of situation would arise when there is a sudden development of short-term temporary instability by reason of international or domestic developments which probably were not foreseen in advance and which can be expected to be of short duration. In this case, a quick temporary change in tax rates may help the economy adapt to the situation without either excessive inflation or excessive unemployment, as the case may be.

We conclude therefore that:

> **Rapid tax changes in the appropriate direction could contribute importantly to stability of employment, output, incomes, and prices and the Government should move to develop procedures and techniques to make such rapid tax changes a practical instrument of public policy.**

While making this recommendation, we recognize that the hearings revealed numerous areas in which our knowledge is now incomplete in regard to the effect of such tax changes on the economy. There was some doubt left in our minds as to whether a temporary reduction, for example, would have the same proportionate effect in stimulating the economy as a temporary increase would have in restraining economic activity. There was some fuzziness concerning the probable impact of some of the tax changes considered, both as to the *speed with which they would work* and as to *precisely what aspects of economic activity they would affect*, and in what order.

It appears, however, that the difficulties we face because of a lack of complete and perfect knowledge of the economic impacts of various tax changes are not substantially greater than the handicaps we face in using other instrumentalities of government, such as control over the supply of money and credit or alterations in expenditure programs. Over the years, the hearings of the Joint Economic Committee and its subcommittees have revealed numerous gaps in our knowledge concerning the effects of changes in other Government policies. Yet as practical officials we have to take positions on the use of these instruments of policy and do the best that can be done, just as businessmen and others in the private economy must do the best they can to make decisions on the basis of the incomplete knowledge available to them.

We are, therefore, convinced that the way to improve our knowledge is to start working at the problem by using short-term tax changes (and various contingencies) until we learn how to use them with the utmost effectiveness. Some will claim that this invites the making

of serious mistakes, but they overlook the fact that failing to take action is itself a decision which can have just as serious consequences if, indeed, inaction should turn out to be the wrong policy. There is no way out of the dilemma, and we must face the fact that deciding to take action to increase or reduce taxes, when appropriate, is but the other side of the coin to action not taken. We believe it is better to take the decision on rational grounds than let it go by accidental default by simply throwing up our hands at the immense difficulties of arriving at the best possible decision.

What Principles Should Govern the Design of Rapid Tax Changes To Promote Economic Stability?

If rapid tax changes are to be used to promote economic stability, as we believe they should, then principles must be agreed upon to guide such action, and these principles applied in the design of a workable program. The subcommittee approached this task with an extensive background of investigations into the design of tax policies to promote economic stability and growth. We point particularly to the hearings of this subcommittee under the distinguished chairmanship of Congressman Wilbur Mills in the 1950's as examples of these efforts. To those interested in this subject we can make no better recommendation than that they again study the reports, compendiums of papers, and hearings of the two major investigations under Chairman Mills, entitled "Federal Tax Policy for Economic Growth and Stability" (1955–56), and "Federal Expenditure Policy for Economic Growth and Stability" (1957–58).

We should reiterate recommendations on tax policies made by the subcommittee after its 1955 study; namely, that the individual and corporate income taxes be strengthened in ways that would enhance the built-in automatic stabilizing capacity of the Federal tax system; that a careful balance be maintained between elements of the tax system resting on consumption and on investment; that greater neutrality among taxpayers be promoted; and that the tax system be geared to the protection of the competitive position of small and new businesses.

This longstanding position of the Joint Economic Committee concerning tax reform and its relationship to economic growth and stability leads us to state as our first principle for the design of rapid tax changes for stabilization purposes the following:

1. Rapid tax changes designed for shortrun stabilization purposes must always be constructed in a manner consistent with longer run requirements for an improved tax system meeting the highest standards of equity and consistent with the longrun economic growth and stability of our free enterprise system.

Doubtless, the problems of design and implementation of shortrun stabilization policy will be complicated by taking into consideration longer run objectives of tax policy. Nevertheless, this principle is important because we can never predict the future so well that we can be absolutely sure that a shortrun tax change will not turn out to be long run. After all, there have been some temporary tax measures in the past that lasted for decades. When we make a shortrun tax

change we must be prepared to live with the change for what for practical purposes is the longer run. Tax changes must therefore not interfere with the process of improving the tax system and indeed, whenever it is practicable without undue delay, such changes should incorporate improvements in the tax system as part of the shortrun stabilization effort. However, basic reforms in the tax structure take time for consideration and agreement, both in the executive and legislative branches. Therefore, we must emphasize as our second principle:

2. The substantial benefits of a continuous full employment economy should not be sacrificed to the pursuit of reforms when their adoption would entail lengthy delays. Successful use of longrun tax changes as part of a shortrun stabilization program requires advance planning to obtain agreements on needed reforms before the occasion arises to use them for shortrun purposes.

The Joint Economic Committee, as indicated earlier, has repeatedly urged upon both the Congress and the administration the high priority which should be given to improving tax and expenditure systems from the standpoint of promoting economic growth and stability, the efficient use of resources, the equitable distribution of income, and a fair distribution of the costs and benefits of Government programs. So much needs to be done that with general awareness that action is needed, we should be able to develop a shelf of reforms to be introduced as general economic conditions permit. But when unforeseen instability appears in the economy, the absence of agreement on reforms should not impede tax action. This means that when a fundamental tax reform is a desirable course to follow, but the design of this change has not been agreed upon, the rapid shortrun tax change would be of a temporary nature designed to promote economic stability for a period during which more permanent legislation could be enacted. It is also true that frequently the tax change needed quickly is needed for only a brief period. Hence, our third principle:

3. Rapid tax changes for shortrun stabilization purposes should have built-in time limits to insure that they are temporary and to insure that they are not substituted for longer run tax changes of a more fundamental kind.

Confining rapid tax changes to shortrun stabilization purposes implies also that they must be consistent with other shortrun stabilization policies. It would be an error, therefore, to enact discretionary shortrun tax changes in a hurry if in the process we interfered with the operation of various built-in automatic stabilizers or with the effectiveness of other policies, such as monetary and debt management policies. As our fourth principle, therefore, we state:

4. Devices to be used for discretionary rapid shortrun tax changes should fit in with and reinforce, wherever possible, the automatic stabilizers.

We must be careful in the design of new instruments that we do not reduce the effectiveness of these automatic stabilizers. An example of this is the proposal for replacement of portions or all of the corporate income tax either by excises or a value-added tax which would fluctuate

proportionately with private activity. Whatever the other virtues of this proposed type of tax change in the long run, its effect in the short run clearly would be to reduce the automatic stabilizers' effectiveness and *increase the need for discretionary action* by the Government. In a word, a step in this direction would make the problem worse by handing Government officials more decisions to make without, at the same time, in any way reducing the recognition and decision lags.

One corollary of this principle is that everything that can be done to improve our ability to diagnose the current and prospective state of the economy is worth doing. Such actions as improving our statistical programs and increasing expenditures for economic research are comparatively low in cost compared to their benefits in improving our ability to recognize the current and prospective health of the economy. If such efforts produce an avoidance of even an occasional mistake or improve only modestly the effectiveness of our economic policies, they would pay for themselves thousands of times over since the mistakes involve billions and the economic and statistical programs involve only millions.

The difficulties of diagnosis and forecasting emphasize the next important principle that should govern the design of tax changes for purposes of economic stabilization:

5. The design of countercyclical tax changes should be such that they can be assured a ready and speedy general acceptance.

Doubtless technicians could develop many ingenious or novel approaches to the problem of changing taxes for purposes of stabilization. But many of these must be rejected because their novelty and/or complexity will inevitably cause extensive delay in taking action upon them. Since the object of improving countercyclical tax changes is to increase the speed with which they can be put into operation, anything that slows up action must be summarily rejected, no matter what its other merits.

As previously pointed out, there will be not only considerable time taken in studying and deciding the tax changes necessary, but also some time will be required to put the change into effect and then for the tax change to have an economic result. To needlessly complicate this operation would be to insure that the economic results come long after they are required. To insure speedy and general acceptability of a tax change implies our sixth requirement:

6. The method of tax change should entail a minimum of modification in the normal tax collection and payments process from the standpoint both of the Government and of private individuals and organizations.

To attain speed in the process of making a shift in tax policy for stabilization purposes it must be possible for the taxpayer to understand the necessary change and the way in which he is to comply with the Government's request. In brief, it must be very easy and fast for the Internal Revenue Service to put the needed tax changes into effect as far as the individuals and/or organizations being taxed are concerned. This doubtless will rule out some tax changes that otherwise might be attractive. But the same considerations of speed, ease

of understanding, and ease of compliance lead one to set up another criterion:

7. Choice among alternative shortrun tax changes for purposes of stabilization should be made primarily with reference to the promptness and predictability of their effects on the economy.

It will take time to determine that the need for action is at hand and we should waste no time in getting results once that determination is made. Tax action which can be taken promptly but that will produce economic results in the distant future is less desirable than action which produces immediate results. The economics of the situation at any time are sufficiently unpredictable that we should minimize risks by preferring changes in taxes, the timing and measurement of whose effects are the most likely to be predictable and immediate. While placing emphasis upon the immediacy and certainty of economic effects of tax policy in the short run, we must not lose sight of an additional criterion:

8. In most situations, discretionary tax changes will aim at improving stabilization by making relatively small changes in the flows of income and expenditure; hence policies are to be preferred that have small results at the margin rather than those that can only be used on a broad basis that produce large and possibly destabilizing effects in the future.

It is our understanding that if economists have learned little else in the last hundred years, it is the hazard of excessively large and sudden changes in policy. Shocks to an economic system are liable to produce a "bouncing" effect whose future outcome in terms of fluctuations are difficult to predict with precision. The probable appearance of such fluctuations, however, is less uncertain. In these circumstances, policy should fit the size of the tax action not merely to the magnitude of the effect desired but also to the certainty with which we can predict it. In general, this dictates relatively small marginal operations rather than massive assaults.

9. Temporary changes in taxes for economic stabilization should meet those standards of fairness and equity which apply to any tax policy.

The fact that a tax change is labeled temporary or short run should not exempt it from those standards of fairness, equity, and simplicity which govern correct design of tax policies in any other circumstances. These are characteristics that insure the widespread support of tax policy. They also insure a minimum of time consumed in enactment and in effectuating the change. It is very difficult to measure or to insure equity or fairness and there will be many occasions—more likely a majority of occasions—when the best we can do is to insure consistency as between the degree of fairness exhibited when making increases and that exhibited in enacting decreases. But we must not deceive ourselves. For the political decisionmaker, the planning horizon must necessarily be shorter than for the economic theorist. It is easy to forget that the politician cannot insure that what is intended to be temporary will prove to be so. It would be most unfortunate if in the search for either equity or consistency, we forget this shortness with which the decisionmaker has to plan and build

into the tax change a bias in favor of decreases or increases. It is altogether too easy to make a shambles of stabilization policy. This leads one to ask whether it is possible to design a "neutral" tax change, the ideal of many students of public finance. We conclude:

10. It is doubtful if any policy aimed at shortrun stabilization can be successful if we restrict it to changes that everyone will recognize as being neutral.

The search for neutrality in tax policy is a never-ending pursuit. We should not deceive ourselves, however, that in trying to use tax policy for shortrun stabilization we will necessarily find success via the neutrality route. It is difficult enough to know what neutrality means, much less to apply it in a hurry to changes that may be short run in character. The search for neutrality should be pursued with vigor, but we should not be oversanguine about the results of the search. We doubt if very many people will agree about what neutrality means—if our hearings are any indication—much less that a tax policy can be designed that everyone, or even a majority, will accept as neutral whatever definition of neutrality is chosen. We believe, therefore, that standards of equity and effectiveness are much more to the point in the short run and that the best we can hope for is that the devices adopted in this endeavor will at least not seem grossly nonneutral to a majority of citizens. This leads us to the last and not the least important consideration in the design of shortrun changes:

11. If in a particular situation we cannot adapt some agreed upon structural reform of a permanent character to the requirements of stabilization policy—which may often be possible—then the best that we can do is to insure that the alternative which is pulled off the shelf for use will be an obvious, agreed upon, and predictable instrument which everyone knows in advance will be used.

It is easy to underestimate the role of predictability in the governance of economic affairs. We are impressed with the widespread acceptance among experts of the idea that the public should be assured that tax changes for shortrun economic stabilization will follow a predictable format in the majority of cases. Granted, there will be times when the public, the Congress, and the executive branch will be agreed upon some permanent reform of the tax structure that would have effects appropriate to the shortrun stabilization problem. There we see no problem. The correct decision is to put the longrun reform into effect at once and leave the shortrun stabilization tax instrument on the shelf for another occasion. But should no such permanent reform be in the works and readily available, it seems perfectly clear that the public should be assured as to what the alternative will be.

Of the many alternative tax changes suggested to us as suitable, we think that a uniform percentage addition to or subtraction from corporate and personal income tax liabilities computed under permanent provisions of the tax code, to be effective for a stated period, best satisfies criteria for shortrun stabilizing revenue changes.

A change should be adopted for a definite term, at the end of which time the provision would expire. Thus, an addition to or subtraction from tax liabilities would be reversed automatically unless a new provision were enacted. Terms provided in the legislation making a change should be short, perhaps not longer than 1 year, in order to assure that the question of what should be the appropriate rate will receive frequent review. The change, which should appear as a separate item on income tax forms, would be an adjustment to the regularly computed liability. When a change was in effect for only part of a taxpayer's tax year, he would apply the percentage to a prorated share of his regular liability. The same percentage change made to final tax liabilities would be applied to withheld taxes and to estimated taxes in the case of taxpayers filing quarterly estimates. Thus, the effect of the change on disposable income and corporate retained earnings would be immediate.

The accompanying tables show the effects of a hypothetical $5 billion increase in revenues on the tax liabilities of corporations and persons. For the effects of a $5 billion decrease, signs of changes shown in tax liabilities are negative. In the tables, the equal percentage change computation is compared to three alternatives: A change in the first four bracket rates, an equal point change, and an equal percentage change in taxable income after tax.[2] Each table shows the effects of the indicated change on personal tax liabilities. On the assumption that the change does not alter relative personal and corporate tax liabilities, the personal share of the change is $3.2 billion and the corporate share $1.8 billion.

TABLE 1.—*Number of taxable returns and individual income tax liability under present law and the amount of tax increase under a 6.2-percent increase in tax liability,* [1] *by adjusted gross income class, at estimated calendar year 1966 levels of income* [2]

Adjusted gross income class (thousands)	Number of taxable returns (thousands)	Present law tax liability (millions)	Increase in tax liability		
			Amount (millions)	Percent of present law tax (percent)	Percent distribution (percent)
0 to $3	9,439	$1,091	$68	6.2	2.1
$3 to 5	10,064	3,051	189	6.2	6.0
$5 to $10	24,081	16,417	1,018	6.2	32.1
$10 to $20	10,319	16,255	1,008	6.2	31.8
$20 to $50	1,485	8,099	502	6 2	15.8
$50 and over	214	6,277	389	6.2	12.3
Total	55,602	51,191	3,174	6.2	100.0

[1] Designed to increase tax liability by approximately $3.2 billion. A 6.2 percent addition to corporate tax liabilities would raise $1.8 billion of the total $5.0 billion increase.
[2] As assumed in the Budget for the U.S. Government for the fiscal year ending June 30, 1967.

NOTE.—Figures do not necessarily add to totals due to rounding.

Source: Joint Committee on Internal Revenue Taxation.

[2] Taxable income after tax is not disposable income: that is total economic income after tax. For the effects of applying the percentage to adjusted gross income after tax, see the statement by Stanley S. Surrey, Assistant Secretary of the Treasury for Tax Policy.

TABLE 2.—*Number of taxable returns and individual income tax liability under present law and the amount of tax increase under an increase of 3, 2, 2, and 1 percentage points in the first 4 tax rate brackets, respectively,*[1] *by adjusted gross income class, at estimated calendar year 1966 levels of income* [2]

Adjusted gross income class (thousands)	Number of taxable returns (thousands)	Present law tax liability (millions)	Increase in tax liability		
			Amount (millions)	Percent of present law tax (percent)	Percent distribution (percent)
0 to $3	9,439	$1,091	$184	16.8	6.0
$3 to $5	10,064	3,051	374	12.3	12.3
$5 to $10	24,081	16,417	1,561	9.5	51.4
$10 to $20	10,319	16,255	786	4.8	25.9
$20 to $50	1,485	8,099	116	1.4	3.8
$50 and over	214	6,277	16	.3	.5
Total	55,602	51,191	3,037	5.9	100.0

[1] Designed to increase tax liability by approximately $3.2 billion. Raising the corporate normal tax rate from 22 percent to 24.4 percent would yield $1.8 billion.

[2] As assumed in the Budget for the U.S. Government for the fiscal year ending June 30, 1967.

NOTE.—Figures do not necessarily add to totals due to rounding.

Source: Joint Committee on Internal Revenue Taxation.

TABLE 3.—*Number of taxable returns and individual income tax liability under present law and the amount of tax increase under a 1.2 percentage point increase in each tax bracket rate,*[1] *by adjusted gross income class, at estimated calendar year 1966 levels of income* [2]

Adjusted gross income class (thousands)	Number of taxable returns (thousands)	Present law tax liability (millions)	Increase in tax liability		
			Amount (millions)	Percent of present law tax (percent)	Percent distribution (percent)
0 to $3	9,439	$1,091	$89	8.2	2.8
$3 to $5	10,064	3,051	233	7.6	7.4
$5 to $10	24,081	16,417	1,195	7.3	37.7
$10 to $20	10,319	16,255	1,075	6.6	33.9
$20 to $50	1,485	8,099	394	4.9	12.4
$50 and over	214	6,277	181	2.9	5.7
Total	55,602	51,191	3,167	6.2	100.0

[1] Designed to increase tax liability by approximately $3.2 billion, alternative rate on capital gains increased from 25 to 25.6 percent. Increasing corporate normal and surtax rates by 1.3 percentage points would yield $1.8 billion.

[2] As assumed in the Budget for the U.S. Government for the fiscal year ending June 30, 1967.

NOTE.—Figures do not necessarily add to totals due to rounding.

Source: Joint Committee on Internal Revenue Taxation.

TABLE 4.—*Number of taxable returns and indvidual income tax liability under present law and the amount of tax increase under a 1.5 percent decrease in taxable income after present law tax,*[1] *by adjusted gross income class, at estimated calendar year 1966 levels of income* [2]

Adjusted gross income class (thousands)	Number of taxable returns (thousands)	Present law tax liability (millions)	Increase in tax liability		
			Amount (millions)	Percent of present law tax (percent)	Percentage distribution (percent)
0 to $3	9,439	$1,091	$95	8.7	3.0
$3 to $5	10,064	3,051	246	8.0	7.7
$5 to $10	24,081	16,417	1,247	7.6	39.1
$10 to $20	10,319	16,255	1,100	6.8	34.5
$20 to $50	1,485	8,099	371	4.6	11.6
$50 and over	214	6,277	132	2.1	4.1
Total	55,602	51,191	3,191	6.2	100.0

[1] Designed to increase tax liability by approximately $3.2 billion.
[2] As assumed in the Budget for the U.S. Government for the fiscal year ending June 30, 1967.

NOTE.—Figures do not necessarily add to totals due to rounding.

Source: Joint Committee on Internal Revenue Taxation.

TABLE 5.—*Individual income tax liability under present law and increase in tax liability under 4 alternatives designed to increase total tax liability by approximately $3.2 billion single individual, with deductions the greater of the minimum standard deduction or 10 percent of adjusted gross income*

Adjusted gross income	Taxable income	Tax liability under present law	Taxable income after present law tax	Increase in tax liability			
				Under a 6.2-percent-increase in tax liability	Under a 1.2 percentage point increase in tax rates	Under an increase of 3, 2, 2, and 1 percentage points in the first 4 tax-rate brackets, respectively	Under a 1.5-percent decrease in taxable income after present law tax
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
$1,000 [1]	$112	$16	$96	$1	$1	$3	$1
$2,000 [1]	1,112	163	949	10	13	27	14
$3,000 [1]	2,122	333	1,789	21	26	40	27
$4,000 [1]	3,022	504	2,518	31	37	40	38
$5,000	3,900	671	3,229	42	47	40	48
$7,500	6,150	1,168	4,982	72	74	40	75
$10,000	8,400	1,742	6,658	108	101	40	100
$12,500	10,650	2,398	8,252	149	128	40	124
$15,000	12,900	3,154	9,746	196	155	40	146
$25,000	21,900	6,982	14,918	433	263	40	224
$35,000	30,900	11,627	19,273	721	371	40	289

[1] Tax on incomes under $5,000 is derived from the tax table where the amount of the tax is related to the amount of adjusted gross income; the taxable income shown in col. (2) and the tax increases shown in cols. (6), (7), and (8) are derived from imputed taxable income implicit in the tax table.

Source: Joint Committee on Internal Revenue Taxation.

TABLE 6.—*Individual income tax liability under present law and increase in tax liability under 4 alternatives designed to increase total tax liability by approximately $3.2 billion; married couple with no dependents, with deductions the greater of the minimum standard deduction or 10 percent of adjusted gross income*

Adjusted gross income	Taxable income	Tax liability under present law	Taxable income after present law tax	Increase in tax liability			
				Under a 6.2-percent increase in tax liability	Under a 1.2 percentage point increase in tax rates	Under an increase of 3, 2, 2, and 1 percentage points in the first 4 tax-rate brackets, respectively	Under a 1.5-percent decrease in taxable income after present law tax
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
$1,000 [1]	0	0	0	0	0	0	0
$2,000 [1]	$412	$58	$354	$4	$5	$12	$5
$3,000 [1]	1,425	204	1,221	13	17	38	18
$4,000 [1]	2,422	358	2,064	22	29	58	31
$5,000	3,300	501	2,799	31	40	73	42
$7,500	5,550	914	4,636	57	67	80	70
$10,000	7,800	1,342	6,458	83	94	80	97
$12,500	10,050	1,831	8,219	114	121	80	123
$15,000	12,300	2,335	9,965	145	148	80	149
$25,000	21,300	4,796	16,504	297	256	80	248
$35,000	30,300	7,997	22,303	496	364	80	335

[1] Tax on incomes under $5,000 is derived from the tax table where the amount of the tax is related to the amount of adjusted gross income; the taxable income shown in col. (2) and the tax increases shown in cols. (6), (7), and (8) are derived from imputed taxable income implicit in the tax table.

Source: Joint Committee on Internal Revenue Taxation.

TABLE 7.—*Individual income tax liability under present law and increase in tax liability under 4 alternatives designed to increase total tax liability by approximately $3.2 billion; married couple with 2 dependents, with deductions the greater of the minimum standard deduction or 10 percent of adjusted gross income*

Adjusted gross income	Taxable income	Tax liability under present law	Taxable income after present law tax	Increase in tax liability			
				Under a 6.2-percent increase in tax liability	Under a 1.2 percentage point increase in tax rates	Under an increase of 3, 2, 2, and 1 percentage points in the first 4 tax-rate brackets, respectively	Under a 1.5-percent decrease in taxable income after present law tax
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
$1,000 [1]	0	0	0	0	0	0	0
$2,000 [1]	0	0	0	0	0	0	0
$3,000 [1]	$25	$4	$21	[2]	[2]	[2]	[2]
$4,000 [1]	1,025	144	881	$9	$12	$30	$13
$5,000	2,000	290	1,710	18	24	50	26
$7,500	4,350	686	3,664	43	52	80	55
$10,000	6,600	1,114	5,486	69	79	80	82
$12,500	8,850	1,567	7,283	97	106	80	109
$15,000	11,100	2,062	9,038	128	133	80	136
$25,000	20,100	4,412	15,688	274	241	80	235
$35,000	29,100	7,529	21,571	467	349	80	324

[1] Tax on incomes under $5,000 is derived from the tax table where the amount of the tax is related to the amount of adjusted gross income; the taxable income shown in col. (2) and the tax increases shown in cols. (6), (7), and (8) are derived from imputed taxable income implicit in the tax table.
[2] Less than 50 cents.

Source: Joint Committee on Internal Revenue Taxation.

Setting a definite expiration date for the change goes as far as is possible to assure that the change will be temporary. The computation is as simple as tax computations can be made and the taxpayer's share of the penalties for prosperity or rewards of recession is separately identified. The computation does not, as some alternatives do, result in the addition and subtraction of taxpayers from the rolls; the requirement to file established by the regular computation is not changed by the stabilization computation.

On the basis of experience with the tax reduction under the Revenue Act of 1964, a $1 addition to household disposable income added 60 cents to consumption expenditures in the quarter following the change.[3] This, of course, was for a decrease in taxes and a permanent change. Temporary changes and increases might yield a slower response. The response of investment to changes in the corporate tax is slower than that of consumption to changes in the personal tax. Corporations, just as they have more degrees of freedom than do households in escaping monetary control, appear to be freer of fiscal control. Possibly a rather heavy-handed application of both fiscal and monetary controls is necessary to produce a significant prompt response in investment spending. The slower response to changes in the corporate tax has been offered as a reason for placing primary reliance on the personal tax. Possibly the relative ineffectiveness of corporate tax changes to regulate investment stems from the fact that investment decisions are strongly influenced by changes in consumption. If so, this consideration strengthens the case for relying on the personal tax for economic stabilization. Nevertheless, we have included corporations in the change out of consideration for equity.

The subcommittee's recommendation, while not relieving persons in low-income brackets from the increases and decreases to which shortrun stabilization would subject their disposable income, nevertheless reduces that variation to a small range.

The subcommittee heard a number of interesting suggestions for new taxes and novel variations in old ones. These ideas deserve consideration in the continuing efforts which we expect will be made to improve techniques of shortrun discretionary stabilization.

(1) *Excise and payroll taxes.*—Although variation in excise and payroll taxes was mentioned, no one supported the idea. Excise taxes were considered unsuitable because anticipated changes in taxes which affect prices have a destabilizing impact on spending plans. Payroll taxes were rejected, first, because the employer's share is in effect an excise tax on employment and variations would adversely affect employment. Second, variations in rates would compromise the financial condition of the funds to which revenues are pledged unless compensating allocations of general revenues to the funds were made. In view of the burden of payroll taxes and their likely immediate impact on consumption, study should be given to permitting a variable proportion of payroll taxes to be claimed as a credit against income tax liability.

(2) *Excess profits tax.*—Every time we get into a situation of excess demand an excess profits tax is suggested as a possible fiscal remedy.

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[3] Arthur M. Okun, "Measuring the Impact of the 1964 Tax Reduction," paper read before the American Statistical Association, Philadelphia, Pa., Sept. 10, 1965 (p. 8).

This was no exception. Yet, the excess profits tax is an inherently bad tax. Because it reduces the marginal cost of expenses, an excess profits tax erodes business incentives to parsimony and thus relaxes market resistance to inflation pressures. The net inflationary restraint exerted by the tax is mild. The most compelling support for the standby tax change which we recommend is that it is a substitute for an excess profits tax and additions to excises. In contrast to those measures, our proposal does not alter basically the relative tax burdens and it does not create a structure of perverse incentives.

(3) *Value-added tax.*—In principle, the base of this tax is quite broad and a large change in revenue yield could be secured from a small change in the rate. This makes it appealing as an instrument for shortrun discretionary stabilization. Unfortunately, if substituted for the income taxation, it would increase the need for shortrun discretionary stabilization. The tax would turn in a much poorer performance as an automatic stabilizer because the base varies closely with GNP—in one version, the base is GNP less Government. It is often alleged that income taxes penalize success and reward failure. To the extent that success is due to general prosperity and failure to recession, the result is fair. In any event, it is stabilizing and that result would be lost were a value-added tax substituted for income taxation.

(4) *Spending-savings tax.*—Perhaps we should consider a direct tax on outlays as a supplement to direct taxation of income. The outlay tax could be a progressive levy imposed in two parts: a tax on consumption and a tax on saving. In normal times the two rates should be equal. When restraint was needed, the consumption tax could be raised and the savings tax lowered. When stimulus was required, the savings tax could be raised and the consumption tax lowered. An outlay tax would have the incidental advantage that, by imposing a penalty on the inflation of expenses, it would tend to protect the base of the income tax. Unfortunately, a spendings-savings tax is subject to the same pressures for exclusions and exemptions which have complicated the income tax.

(5) *Inventory tax.*—Because of the serious administrative problems in direct taxation of inventories, possibly we should study a more general but indirect alternative, one which would regulate total working capital investment. Were the proportion of interest payments which could be claimed as a deduction against business income variable, the cost of holding working capital could be raised or lowered to discourage or encourage business holdings of inventory, receivables, and the like. The proportion of interest payments allowed as a deduction need not be restricted to a range of zero to 100 percent. The proposal has the possible merit that it would integrate monetary and fiscal policy, although somewhat at the expense of monetary policy.

(6) *Tax holiday.*—This would indeed be a powerful fiscal policy lever. It has the disadvantage that it has no convenient opposite, although perhaps people could be required to pay, for example, twice 1 week's taxes. Satisfying standards of fairness would create difficult administrative problems for taxpayers and for the Internal Revenue Service.

Existing procedures for making decisions on tax changes are inadequate, in the subcommittee's opinion, to assure timely stabilizing tax changes. Congress should enact standby legislation which provides a standard format for temporary tax changes but leaves unspecified the amount of the change and the effective date, these to be decided by joint resolution in the light of changing economic conditions.

We may identify four alternative decision processes for making shortrun stabilizing tax changes.

Formula flexibility.—This idea enjoyed a vogue, some years ago, among economists as a device for reinforcing the impact of automatic stabilization. The formula in formula flexibility is a rule for varying tax rates as indicators of economic activity change. Thus, for example, the rule might specify that income tax rates fall 2 percentage points for each increase of 1 percentage point in the unemployment rate above 2 percent, and rise 2 percentage points for each 1 percentage point increase in the GNP deflator above 2 percent. Since tax rates do not change themselves, the scheme amounts to Presidential discretion without any discretion and this inflexibility is the principal argument against it.

Presidential discretion.—This procedure was recommended by the Commission on Money and Credit and requested by President Kennedy. Under the proposal, Congress would delegate to the President authority to vary tax rates within specified limits. Its chief merit, possibly, is the assurance it gives that stabilizing tax changes would follow a standard format, the format authorized in the delegation of authority to the President, and that these changes would be promptly reversed once the need for them had passed. The proposal was advanced in the interest of reducing the decision lag in shortrun fiscal policy. It is unlikely that the procedure would reduce that lag significantly in those cases where the need for action is evident. And, where there is no compelling need for action, delay has a correspondingly small cost.

Standby legislation.—Standby legislation would specify the format of the change, a joint resolution filling in the rate change and effective date. The standby legislation would be permanent. The percentage adjustment to computed liabilities would be varied up and down as circumstances required by joint resolutions. Under this arrangement, initiative ordinarily would be supplied by the President but, while under a grant of authority to vary rates he could make the change once he had decided that it was necessary, under the standby arrangement he would forward a recommendation to Congress. Since only the amount of the change and not the form would be at issue, presumably, a congressional decision should require little time. The President's recommendation for a line item adjustment to tax liabilities should be made, as is any recommendation for changes in taxes, to the Ways and Means and Senate Finance Committees. These committees should hold hearings, perhaps jointly, and report bills to their respective Houses. However, the recommendation should be considered subject to rules that the Congress act favorably or otherwise within a specified time.

Abridged current procedure.—An accelerated regular procedure for considering tax changes lacks much in formal neatness but in practice could satisfy our criteria for stabilizing tax changes. The President could formulate a standard stabilizing tax change and let it be understood that recommendations for such changes would follow the format. Were practice consistent, in time the procedure would become fixed in custom. Joint House Ways and Means Committee and Senate Finance Committee hearings on the proposed change might expedite congressional action. However, we doubt that Presidents are as consistent as this plan would require or that the work of Congress is as easily reduced to custom.

We urge the Council of Economic Advisers to publish quarterly forecasts for the next four quarters of the full employment surplus.

An accepted design for temporary tax changes and a standard procedure for reaching decisions will not remove the need for a continuing search for ways to improve processes for focusing information and reaching a consensus on changes in fiscal policy. Short as we may try to make the decision and response lags, the recognition lag will remain with us. We are comforted by the observation that uncertainty about the appropriate action to take implies that action may not be imperative. Nevertheless, we think that the degree of uncertainty under which we now labor is excessive. Forecasts of the full employment budget surplus would contribute much to the formation of a more timely consensus on the current fiscal requirement. The forecasts which we recommend, if based on an assumption of constant Federal expenditures, should show the impact on the surplus of the Council's forecast of changes in expenditures. With these forecasts, we could judge better the requirement for tax changes over the course of the coming year.

SUPPLEMENTARY VIEWS OF SENATOR PAUL H. DOUGLAS

While I do not wish to dissent from this report, I do wish to emphasize the importance of considerations of justice in taxation.

The report merely mentions the grave injustices in our tax system under which many men with incomes of over half a million dollars a year pay no taxes, while those with low incomes from wages and salaries are loaded down with a relatively heavy burden.

These injustices are undermining our tax structure and cry aloud for remedying. But this report's emphasis on speed in the raising or lowering of taxes may be taken by some to imply that there is not time to consider the questions of justice when we are cutting taxes or when we are raising them. I would like to ask, When will there be time to consider and to try to remedy these inequities? I am afraid that many of the modern generation of economists have forgotten equity in their pursuit of efficiency. I do not wish to bind myself to increasing taxes to meet the possible increased costs of the Vietnamese war unless I have first tried to raise the necessary revenue by plugging the loopholes and truck holes in our tax system. If we could create a tax system under which people with equal net incomes paid equal taxes, we could raise the same amount of revenue at one-half the present rate of taxation.

Granted that it is politically impossible to reach this goal immediately, nevertheless should we not try to move in the direction of justice? It is probable that these efforts can best be made when the level of taxes is shifted upward or downward. Reductions in the general level can soften the impact of correcting inequities. Similarly, a correction of injustices can reduce any increase in the general level of taxes which might otherwise be desirable.

It is, therefore, very important to stress the temporary nature of the quick tax measures recommended in this report, which typically would be in effect " * * * for a period during which more permanent legislation could be enacted." That permanent legislation *must* be designed to remove injustices and improve the fairness of the tax system as a whole. And, we should not forget that we should always have an eye on the permanent as we legislate for the short run. In the Latin phrase, we should legislate *sub specie aeternitatis*.

DISSENTING VIEWS OF SENATOR WILLIAM PROXMIRE

There are three primary reasons why I cannot endorse the subcommittee's conclusion that existing procedures for making decisions on tax changes are inadequate to assure timely stabilizing tax changes.

First, the accuracy of our economic forecasts is so limited that I seriously question whether tax changes designed to achieve shortrun stabilization could reasonably be based upon them.

Second, tax changes, even simple across-the-board changes, are unsettling and disruptive for business. Uncertainty can paralyze constructive business action.

Third, should a decision to use tax changes to achieve shortrun stabilization nevertheless be made, I would maintain that existing machinery in the executive and in the Congress is adequate to make such change as quickly as may be necessary.

Shortrun Economic Forecasting Too Limited

We have seen already this year an example of the difficulty in making an accurate forecast of the rate of economic activity to cover only four quarters. In January the President's annual Economic Report to the Congress predicted: "As the midpoint of a $10 billion range, $722 billion is the projected level of gross national product in 1966." Now, less than 5 months later, it is obvious that GNP will be substantially higher, well above even the $727 billion upper limit of the January forecast. In this case, the President's report quite accurately plotted the direction of change in GNP but underestimated it.

I suggest that direction alone is not enough. To achieve short-run stabilization through tax changes, it would be nesessary to estimate precisely the magnitude of the change required.

Last year the Council's estimate missed the increase in GNP by a big 25 percent. But neither this year nor last is unique in the annals of economic forecasters. A study being prepared by Victor Zarnowitz, professor of economics and finance at the Graduate School of Business at the University of Chicago, for the National Bureau of Economic Research, indicates that the average error of forecasts of next year's GNP was about $10 billion in the 1953–64 period. This represents only 2 percent of the average level of GNP but is about 40 percent of the average yearly change. And further, Professor Zarnowitz has found that the errors in forecasting the components of GNP are much higher than even the 40 percent, with component errors tending to cancel themselves.

This is hardly a record on which to have predicated tax changes to achieve short-run stability. Recent disclosures by the Treasury of construction of an econometric model that does a much better job of forecasting are encouraging but not yet a basis for use of tax changes as the subcommittee proposes.

Other Differences

Aside from the lack of accurate information on which to base a decision about the direction and magnitude of a tax change, there are other difficulties with this approach. Several witnesses before the subcommittee discussed the problem of whether tax changes of a stated shortrun nature would elicit the desired changes in spending and/or saving.

It was generally acknowledged that changes in the corporate sector could be brought about by changes in the corporate income tax levels only with a substantial lag. The subcommittee proposal envisions stabilizing changes in both individual and corporate income taxes, despite this lag.

Might this inherent difficulty not result in the effect of that portion of the tax change being felt some months after the point at which it allegedly was needed, with the impact coming when shortrun stabilization required a wholly different policy?

Unsettling Impact on Business

I question, too, whether the prospect of taxes going up and down relatively rapidly would not have a general unsettling effect on the economy.

In an art as fraught with human fallibility as Government economic policy, it is especially unwise for the Congress to create an instrument expressly designed to encourage rapid, shortrun changes in the tax structure.

One clearly advantageous Government policy from the business standpoint is tax stability. Any modification of tax rates obviously can have a major and significant effect on business plans.

Of course when taxes are sharply reduced, as in 1964, this can be welcome news for the business community. And to the extent that such a change represents a long-term change in the tax structure to encourage fundamental growth, that change may be wise.

Similarly in times of serious emergency—when it is clear the Federal revenues are likely to be inadequate to meet the responsibilities of government over a period of years—a tax increase could be desirable and necessary.

But to employ tax policy as an alternate whip to speed up the economy and rein to pull it in—and to do this on a short-term basis—is sure to upset and hamper business operations.

Proposed Change Unnecessary

But disregarding the preceding arguments and accepting the subcommittee's premise that tax changes should be used to foster shortrun stabilization, I would maintain that their conclusion still is not correct. It is my firm opinion, supported by several witnesses, that present machinery is perfectly adequate to respond to any request for such a tax change.

Professor Harvey E. Brazer, of the University of Michigan, the first witness to testify, argued for some form of standby machinery for tax changes, but undermined his own position by acknowledging, "It has too often been assumed that Congress is incapable of quick

action. The fact is, of course, that it has never been asked for a temporary countercyclical increase or decrease in tax rates."

Professor E. Cary Brown, of Massachusetts Institute of Technology, testified, "The speed with which Congress can act on fiscal legislation is adequate for stabilization purposes, provided the tax changes are simple and do not involve substantial technical detail or redistribution of income." The whole thrust of the subcommittee report is toward development of such a simple kind of tax change.

Along these same lines, Stanley S. Surrey, Assistant Secretary of the Treasury, stated: "For my own part I would not disagree with a congressional decision to rely upon the regular legislative procedures, for we have seen that these procedures when necessary can permit rapid action."

Machinery of Change Not the Problem

Certainly, congressional machinery can move swiftly enough, if necessary, to enact stabilizing tax changes. Should it do so, however, is another question. Another witness, Norman B. Ture, of the National Bureau of Economic Research, in a prepared statement eloquently argued that the answer is "No."

He said: "Recent experience supports the contention that it is the delay in recognizing the need for compensating tax action, not the delay in enacting such measures, which is basically responsible for the tardy response of fiscal policy to destabilizing developments.

"Most of the proposals for increasing the speed with which discretionary tax changes would be afforded, however, are based on the assumption that it is the latter lag which must be reduced. These proposals would contribute little to improving stabilization policy. Indeed, they have a side effect of diverting attention from a basic requirement for more effective public action to offset short-term economic disturbances, viz, greater reliance on and improvement of short-term forecasting."

His argument is persuasive. It certainly is not standby authority to change taxes that is needed.

There are presently numerous fiscal tools that can be and are used to foster economic stability. Some that could well be used in instances where some would argue for a tax change include short-term postponements of Government spending and the use of credit controls.

Rely on Automatic Stabilizers

At this point, our fiscal tools are at least equal to, if not better than the information on which we base their use. Until this information is improved, the use of tax changes in the short-run manner suggested by the subcommittee could well have a destabilizing effect. Above all, we must not let a preoccupation with the use of taxes as a short-run fiscal instrument cause us to defer our attempts to improve the automatic stabilizers in our economy by longrun improvements in our tax policy.

INDIVIDUAL VIEWS OF SENATOR JACK MILLER

I believe that the hearings on the subject of "Tax Changes for Shortrun Stabilization" have been helpful and informative; and the majority report makes a contribution to a better understanding of a subject which tends to be oversimplified in the minds of the general public, not to mention some economists. But I am not at all persuaded that revenue changes are the answer to shortrun stabilization; nor do I concur that a uniform percentage addition to or subtraction from corporate and personal income tax liabilities, enacted as "standby legislation," is the proper answer to the problem.

The majority report, in commenting on a proposal for delegation to the President the authority to vary tax rates within specified limits, says: "It is unlikely that the procedure would reduce that [decision] lag significantly in those cases where the need for action is evident." If this be true, then how would the majority's proposed solution do so?

There are three basic defects in the report. The first is the assumption that revenue changes are the answer to the problem of stabilization in the economy. Many economists will disagree and will, instead, point out that both revenue and Government spending changes have a part to play in the area of fiscal policy; and that interest rates and changes in the money supply have a part to play in the area of monetary policy. Further, it is generally agreed, I believe, that no single change in any one of these activities will ordinarily produce the desired results.

The second defect is the assumption that the problem of revenue change is so simple as to be answered by merely a change in tax rates. The problem of economic stabilization may lie in the area of overall consumer spending, in which case a change in tax rates might be indicated. But the problem might be confined to certain geographical areas, in which case a change of nationwide impact would be uncalled for and might better be met by Federal spending programs. Again, the problem might lie in the area of investment, in which case a selective change in tax rates or some change in the investment tax credit might be indicated. There could be a structural deficiency in the area of investment calling for special revenue attention too.

Finally, the most important defect is that the report does not squarely face the problem of need for better statistics and better interpretation of statistics without which there cannot possibly be an improvement in the "recognition gap." Our unemployment statistics still do not accurately measure underemployment, initiative in seeking employment, or relationship of unemployment to family income. Our statistics relating to inflation are largely confined to the retail consumer price index and the implicit price deflator of the gross national product. Far too much superficial attention is presently focused on the gross national product as a measure of our economic growth. Until these gaps are filled, it is unlikely that there will be the kind of agreement needed in recognizing problems of economic stabilization much less the solutions to those problems. When these

gaps are filled, I do not believe we would have to worry about prompt action by the Congress, whether in the areas of taxes or spending, or by the Federal Reserve Board in the area of monetary policy.

In short, I cannot agree with the majority report that we must face a dilemma of deciding to take no action, with the possibility of serious consequences; or deciding to increase or reduce taxes, with the possibility of serious consequences. As these views are being written, economists are deeply divided over whether to increase taxes or reduce domestic Federal spending, or both, in meeting the problem of worsening inflation. So the dilemma has not been accurately put. Moreover, stating the dilemma ignores the need for better statistics and better interpretation of statistics, without which soundly conceived standby legislation cannot be drawn up.

The majority report comments on a number of suggestions in the tax field, but overlooked my plan of "incentive taxation of growth income," which was offered as an amendment to H.R. 10650 when it was debated in the Senate in 1962. Under this plan, "growth income" of one year over the previous year would be taxed at only one-half the regular rate; and it would apply to individuals and corporations alike. Such a plan would stimulate the economy much more than the investment tax credit has. But when it was recognized that the economy was in need of less stimulation, the incentive rate could be changed or eliminated entirely. This approach would be more effective than a mere overall rate increase or reduction, because it would reach only those individuals and. corporations whose incomes were directly affecting the stability of the economy.

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