TAX POLICY, SAVING AND CAPITAL FORMATION

STATEMENT
BY

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TO

COMMITTEE ON FINANCE
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HEARINGS ON TAX REVISION AND EXTENSION
OF EXPIRING TAX CUT PROVISIONS

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I am Norman Ture, President of Norman B. Ture, Inc., Economic Consultants in Washington, D.C. My testimony today is presented as my own views on the proper directions of tax policy; while I hope that others will subscribe to these views, they are the product of my own analysis and conclusions and should not necessarily be ascribed to any of my past or present clients.

I very much appreciate the opportunity to appear before the Committee, and I hope that my testimony may be of some assistance to you. Your job is a difficult one and your responsibilities are heavy, indeed. In making decisions about the future course of tax policy, you confront a strongly improving economy, still plagued, regrettably, by a very high rate of unemployment and underutilization of physical production capacity and still threatened by inflationary resurgence. The Congress faces extremely strong pressures, accentuated by election year political requirements, to focus on the short run --- to find quick, sure-fire remedies for lingering unemployment. In this context, you are presented with a budgetary dilemma: the Adminstration urges you to be highly restrictive on Federal expenditure expansion lest you unleash the dogs of inflation, and the Congressional Budget Office urges you to up the ante by close to $20 billion lest you unduly depress the pace of the recovery.

May I respectfully urge the Committee to shift the focus of its deliberations from these short-run concerns to the longer-run economic prospects and tax policy requirements of the Nation. I offer no forecast about the strength, speed, or duration of the recovery, but I am convinced that an expansionary expenditure policy will, at the least, impede the private sector's growth and, over time, cast up increasingly formidable obstacles, real and financial, to the steady, strong expansion of private production, employment, productivity, and real wage rates. It is time to shift gears, to attempt to detemine how tax policy can best contribute to

the solution of the long-run problems the Nation faces.

Capital Adequacy: The Basic Challenge for Tax Policy

The central economic problem facing the United States is whether the rate of capital formation will be adequate to meet the economy's capital requirements over the next decade and longer. Virtually all of the other major issues with which public policy makers are concerned turn on this central problem of capital adequacy. Whether the focus is on attaining energy self-sufficiency, protection of the environment, improving and expanding mass transit systems, raising the housing standards of low and middle-income individuals, providing safer and healthier working conditions, and so on, a basic constraint on achieving these goals is how much real capital will be available to meet the growing and varied demands of the U.S. economy. The less rapidly we add to our production capability, the more severely will pursuit of any of these public policy objectives limit success in achieving other public and private goals.

The Committee has heard much on the subject of the capital shortage, and much of what the Committee has heard has illuminated the public policy issues. The most serious impediment to effective legislative action to deal with this problem is that promising proposals to this end appear to oppose the interests of the affluent against the poor, of business against labor, and of consumers against producers and sellers. Such appearances are grossly deceiving. They arise from a regrettable proclivity to look only at the initial impact of tax changes --- at the estimated initial changes in tax liabilities, rather than carefully examining how taxpayers will respond to changes in taxes and determining what the ultimate effects will be. For example, the Committee has before it in H.R. 10612 a large number of proposed tax revisions which ostensibly would raise calendar year tax liabilities by about $2.5 billion in 1976, ranging upwards thereafter to about $4.25

billion in 1981. Yet common sense insists that, in the case of many of those provisions, there will be no revenue gains at all but revenue losses, possibly substantial, as taxpayers change their activities to avoid the additional tax liabilities, thereby reducing their investment or production and cutting back on employment in the affected activities. When the adjustments that will be made in the market place are taken into account, the effects of changes in the tax laws are often profound and far reaching and quite different in character from those one might expect from examining only the initial change in the distribution of tax liabilities.

Tax changes to reduce the existing tax bias against saving and capital formation offer important cases in point. When one objectively examines the ultimate effect of such tax changes, most if not all of the apparent opposition of interest disappears. Tax changes to mitigate the capital shortage are not exactions from the poor, from consumers, from labor. On the contrary, their prospects for a better tomorrow depend critically on such constructive tax measures.

Nature of the Capital Shortage

We should be sure, to begin with, about the meaning of the terms capital "requirements" and capital "shortage".

The term capital "requirements" does not mean that there is some specific amount of capital that must be on hand at some future time. As individual or business decision-makers, we want additional capital in order to increase our incomes; the amount of additional capital we seek to acquire depends on how much additional income we can obtain from the capital and how much it costs us to get it. Since neither of these factors is fixed, neither is the amount of capital we want.

For the economy as a whole, capital "requirements" should be seen in a

somewhat different light. As in the case of the individual or the business, there is no unique amount of capital that the economy must have at any given time. There should be no public policy concern with adding to the stock of capital for its own sake. It makes sense to talk about capital additions and requirements only in relation to other things, viz., the contribution of additional capital to greater output, employment, productivity, and real wage rates.

The contribution of additions to the Nation's stock of real capital derives from a law of economics, popularly known as the law of diminishing returns. According to this law, an increase in the quantity of one production input used in combination with an unchanging quantity of other production resources increases total output, although the rate of increase in output diminishes relative to the rate of increase in the production input; at the same time, the productivity of the other production inputs increases. Thus, an increase in the amount of capital used in production with a given amount of labor services increases total output and at the same time increases the productivity of labor.

In a free market economy, this increase in the productivity of labor resulting from an increase in the ratio of captial to labor in production has two major consequences: (1) it increases the demand for labor services and (2) it increases real wage rates. How much of the effect of an increase in the capital:labor ratio will be increases in jobs and how much will be increases in wage rates depends on the conditions of supply of labor services; in general, both employment and real wages increase.

It is instructive to examine the postwar record of the business sector of the U.S. economy in this light. Our preliminary estimates based on the recently revised National Income and Product Accounts data show that from 1947 through 1973, the number of full-time equivalent employees in the private business sector of the

economy increased at an average annual rate of 1.5 percent a year. Adjusting for changes in average hours of work per week and certain other factors, the average annual rate of increase of labor services was 1.7 percent. Over the same period, the net stock of capital in the business sector increased at an average annual rate of 3.5 percent. The capital:labor ratio, hence, increased at a trend rate of 1.8 percent. This increase in the capital:labor ratio, in turn, contributed to an average annual rate of increase of 2.9 percent in labor's productivity and real wage rates,

Further analysis of the postwar record also reveals that real output originating in the business sector increased at an average annual rate of 3.6 percent from 1947 through 1973. Of this increase, 28 percent is accounted for by the increase in capital, 33 percent by the increase in labor services, and 39 percent by technical progress --- advances in the state of the industrial arts and their implementation in production processes.

The major conclusion, for purposes of public policy, which emerges from this analysis is that retarding the rate of increase in the capital:labor ratio necessarily means retarding the growth in employment and in real wage rates; accelerating capital formation and the rate of increase in the capital:labor ratio is the only certain means for increasing the rate of expansion of jobs and real wage rates.

Estimating Capital Requirements

With this in mind, we can begin to estimate the Nation's capital "requirements" in a meaningful way. First, we begin with a projection of the growth in the labor force. Given this projection, it is possible to estimate by how much the net stock of capital must grow if the capital:labor ratio is to increase at least as fast as the average rate of the post-war period. To repeat, if the rate of increase in this ratio slows, so too will the rate of increase in employment and real wage rates. Projecting the postwar trends in employment and in the capital:labor

ratio through 1985, we shall have to add $443.2 billion to the net stock of business capital, measured in constant 1975 dollars. Assuming no change in the rate at which business replaces fixed capital, this will require capital outlays totaling $2.236 trillion dollars, again measured in constant 1975 dollars.

This does not exhaust required capital outlays, however. We must add the amount of additional capital --- and the capital outlays to acquire it --- at least to extend the postwar trend rate of increase in the Nation's stock of housing. We must also add the capital that business will have to acquire not merely or even principally to increase its capacity to produce goods and services people want to buy, but to meet public policy mandates with respect to the environment, occupational health and safety, a wide array of product quality standards, energy self -suf iciency, and so on.

Much of this government-mandated capital which a business must acquire generates no increase in its total income. As a consequence, the business making these investments can obtain no return on such capital, hence cannot provide rewards for the private saving which must be channeled into such capital formation. The household or business customer doesn't go into the market to buy cleaner air or water; it's not easy to persuade the customer that a given amount of groceries are worth more because food processors and distributors produced less air or water pollutants. In other words, much of this type of capital makes only a negligible contribution to the market value of the products customers buy. Aggregate sales proceeds for a given amount of output, are not likely to increase by an amount equal to the additional costs of the public-mandated capital. Such capital, therefore, cannot be financed by business out of the insignificant additional cash flow, if any, it generates. And since it reduces the rate of return on the business' total capital, the business faces increasing difficulty in external financing

of its capital additions. Unless the aggregate flow of saving, generated internally by business or available in the capital markets, increases substantially, we face a serious shortfall in the capacity of business to finance the increases in capital used to produce the goods and services people buy --- the capital that does contribute directly to increases in output, employment and real wage rates, This drain must somehow be offset by additional saving. This is not to suggest that these government-mandated capital outlays are not warranted or that the goals they seek are inappropriate. But it must be recognized that such capital formation cannot be had for free and that it adds substantially to the total requirements for capital.

The amount of the capital outlays business will have to make over the next 10 years just to meet the environmental control and OSHA requirements, on the basis of very conservative assumptions, comes to at least $353 billion, in constant 1975 dollars.

Private Saving Requirements

For every dollar of these capital outlays, there must be a dollar of saving; gross private investment must be matched by gross national saving. Gross national saving is the sum of gross private saving plus government surpluses or minus government deficits, In most of the postwar years, the government sector has been in deficit, hence has reduced rather than augmented gross national saving. The burden of financing the Nation's capital requirements, therefore, falls on gross private saving. If it assumed that government deficits average no more than $10 billion per year over the next decade --- an extremely conservative assumption in view of recent experience and near-term prospects --- the Nation's total private saving will have to aggregate $3.82 trillion in constant 1975 dollars, through 1985.

The aggregate saving requirements are substantially larger if, more realistically, we take account of some continuing inflation. If the price level rises

on the average by 3 percent a year through 1985, total requirements aggregate not less than $4.55 trillion. At a 5 percent inflation rate, this total increases to $5.13 trillion.

If gross private saving as a fraction of GNP continues over the next decade at the postwar average rate of 15.51 percent, the total of such saving through 1985 will fall $744 billion short of estimated requirements, measured in constant 1975 dollars. At a 3 percent inflation rate, the gap, conservatively estimated, is $893 billion; with inflation at 5 percent, the gap increases to $1008 billion.

Closing this gap between capital requirements and private saving will require an increase in the total private sector saving rate from the 15.51 percent postwar average to 19.26 percent, if we assume a zero inflation rate through 1985. At a 3 percent inflation rate, total private sector saving would have to increase to 19.29 percent of GNP. And if inflation is at 5 percent, the private saving rate will have to increase to 19.30 percent.--[1] These estimates are summarized in Tables 8a, b, and c.

There is no assurance that total private saving will continue at the postwar average rate, let alone that it will increase by the indicated amount. Some economists dismiss this problem by asserting that if the private saving rate were inadequate, the market rate of interest would rise and private saving would, therefore, increase. But this answer confuses cause and effect: the rise in interest rates would be the result of the shortfall as I've attempted to define it; in saving and in capital formation, it would reflect a greater relative scarcity of capital, hence the higher price the economy would have to pay for the services of capital in

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[1] The estimated required saving rates in the inflation cases err significantly on the low side. The estimated amount of private saving does not include downward inventory valuation adjustments which would reduce business saving under the 3 percent and 5 percent inflation cases. Moreover, the estimated saving implicitly assumes that capital recovery allowances would increase above the annual zero inflation amounts in the same proportion as the inflation rate. Since capital recovery allowances are based on historical rather than replacement costs, this assumption overstates the amount of this component of private saving under the 3 percent and 5 percent inflation cases.

Estimated Capital Requirements and Private Saving, 1976-1985

(billions of 1975 dollars)

a. Zero Inflation

Year	CAPITAL REQUIREMENTS: Nonresidential Fixed Investment Plus Inventory Accumulation	CAPITAL REQUIREMENTS: Other Capital Outlays, Including Government Deficits	Total	GROSS PRIVATE SAVING	SAVING GAP
1976	205.7	110.6	3163	261.3	55.0
1977	213.0	115.8	328.8	270.6	58.2
1978	220.5	121.4	341.9	280.3	61.6
1979	228.1	127.5	355.6	290.3	65.3
1980	236.3	134.2	370.5	300.7	69.8
1981	244.5	141.4	385.9	311.5	74.4
1982	253.0	149.5	402.5	322.7	79.8
1983	261.9	158.3	420.2.	334.2	86.0
1984	271.1	168.0	439.1	346.2	92.9
1985	280.6	178.6	459.2	358.6	100.6
Total	2,414.7	1,405.3	3,820.0	3,076.4	743.6

Estimated Capital Requirements and Private Saving, 1976-1985

(billions of dollars)

b. Three Percent Inflation

Year	CAPITAL REQUIREMENTS	GROSS PRIVATE SAVING	SAVING GAP
1976	325.8	269.1	56.7
1977	348.8	287,1	61.7
1978	373,6	306.3	67.3
1979	400.2	326.8	73.4
1980	429.5	348.6	80.9
1981	460.8	371.9	88.9
1982	495.0	396.8	98.2
1983	532.3	423.3	109.0
1984	572.9	451.7	121.2
1985	617.1	481.9	135.2
Total	4,556.0	3,663.5	892.5

Estimated Capital Requirements and Private Saving, 1976-1985

(billions of dollars)

c. Five Percent Inflation

Year	CAPITAL REQUIREMENTS	GROSS PRIVATE SAVING	SAVING GAP
1976	332,1	274.4	57.7
1977	362,5	298.4	64.1
1978	395.8	324.5	71.3
1979	432.2	353.0	79.2
1980	472.9	383.9	89.0
1981	517.1	417.5	99.6
1982	566.4	454.1	112.3
1983	620.8	493.8	127.0
1984	681.2	537.1	144.1
1985	748.0	584.1	163.9
Total	5,129,0	4,120.8	1,008.2

production. To be sure, the market would clear, but there is no reason to assume that the market-clearing amount of saving and capital formation would be adequate to maintain the trend rate of increase in the capital-labor ratio and to satisfy the government mandated demands for capital as well.

Another answer to the prospective shortfall in saving which some economists offer is for the Federal government to achieve budget surpluses instead of deficits. As noted, a government budget surplus is a plus in gross national saving while a deficit is a minus. Whether this prescription would solve the problem, however, depends on how the surplus is achieved. A slowdown in the growth of government spending, allowing revenues at present tax rates to catch up and overtake expenditures, would certainly contribute to expanding the Nation's total saving. Desirable as this sort of fiscal development would be, it does not appear to be a realistic prospect.

The alternative means for shifting from deficit to surplus is to increase tax revenues at a faster rate than provided by the growth of economic activity, that is, by increasing tax rates, by eliminating or reducing so-called "tax-expenditures", or by adding new taxes. None of these approaches is likely, however, to contribute much to closing the saving-capital formation gap, Each is likely to increase the cost of private saving, hence to reduce its amount. Raising taxes, therefore, would transfer saving from the private to the public sector; it would not necessarily or even likely increase total saving by any material amount.

Particular caution should be attached to the recommendations to raise additional tax revenues by reducing tax "expenditures". Apart from the fact that the estimates of the additional revenues to be obtained thereby are woefully unrealistic (because they are based on the assumption that the affected taxpayers would be completely unresponsive to the increases in their taxes), the principal flaw in this approach is that the increase in taxes would almost entirely represent

additional taxes on the return to private saving, thereby accentuating the existing anti-saving tax bias. At best, private saving might be expected to fall by no more than the estimated increase in revenues; more realistically, the decline in private saving would probably exceed any ultimately realized increase in Federal tax revenues.

Whatever one's view about the desirability of reducing tax "expenditures", it is mere wishful thinking to project any increase in the Nation's total saving from doing so. All things considered, achieving a higher total saving rate from government surpluses is not a realistic solution.

Consequences of a Private Saving Shortfall

What will happen if actual saving falls short of these "requirements"? In all likelihood, the capital formation shortfall would be largely in the investment in the machinery, equipment, plants, working capital, etc., which increase the real output of marketable goods and services. If the private saving rate were to continue only at the postwar average rate, the saving shortfall, in 1985, assuming no increase in the price level, would be $100 billion. This would be almost 22 percent of the estimated amount of the capital formation needed to maintain the trend rate of increase in the capital-labor ratio. The adverse impact of a shortfall of this magnitude on labor's productivity and real wage rates clearly would be enormous.

It is clear, I hope, that the problem we face is not one of providing incentives to business to add more rapidly to the stocks of their capital. The problem, rather, is one of reducing the existing bias against saving. The capital shortage facing the Nation is, in truth, a saving shortage.

The Tax Bias Against Saving

The tax policy imperative, accordingly, is to reduce the bias against private saving which is a major feature of the present tax laws. That bias results from the

fact that, with few exceptions, taxes are imposed both on the amount of current saving and on the future returns to such saving, whereas the tax falls only once on income used for consumption. Since the amount we save today is the capitalized value of income we will receive in the future, we currently tax the same future income stream at least twice. More realistically, we tax saving over and over again: the corporation income tax, State and local income taxes, property taxes, estate, gift, and inheritance taxes --- all substantially add to the aggregate tax burden on saving. Saving uses of income are taxed by far more heavily than anything else)]

The foremost challenge facing the Congress is to deal realistically with the urgent requirement for a higher rate of private saving. If this challenge cannot be met, one or more of the high priority objectives of economic policy will have to bear the brunt of the failure.

Tax Changes to Ease the Capital Shortage

It is highly encouraging that many members of the Congress have become aware of the prospective capital shortfall, have perceived the potential of changes in the tax structure to deal with the problem, and have attempted to develop programs for constructive tax revisions to this end. Particularly promising, in my judgement, are those tax programs which address the problem with a variety of proposals, aimed at expanding saving by individuals and business alike. This approach recognizes that no one form of saving is superior to others, that all additional saving will find its way into the capital market where it will be allocated

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1/ I've attempted to detail the elements of the tax system which contribute to this anti-saving bias and to illustrate their impact in testimony presented to the Committee on Ways and Means, Panel Discussions on General Tax Reforms, 93rd Congress, First Session, February 5, 1973, pp. 153 ff. and in "Tax Treatment of Savings and Capital Recovery", The George Washington Law Review, Symposium on Tax Policy, March 1974, Volume 42, Number 3, pp. 501 ff.

to the myriad capital formation uses, by and large on the basis of which of the market participants can make the most productive use of additional capital. No one tax change of limited scope is the best revision for purposes of reducing the existing tax bias against saving and investment. A variety of such measures are called for if everyone is to be allowed to get in on the act of accelerating the expansion of the Nation's production capability, its total output, employment, and income.

I alluded early in my testimony to a serious impediment to legislation to deal effectively with the capital shortage --- the apparent opposition of interests of various groups in the society. Decades of adversary positions are not going to be legislated away in a single revenue act, but a start toward broader and fuller understanding of the importance of and benefits from removing the tax barriers to a higher saving rate can be made by tax legislation which eases the excessive tax burden on all taxpayers' saving.

In this connection, Chairman Long's vigorous espousal of tax provisions to encourage employees to invest in the stock of their employers reflects a recognition of the aspirations of people in a wide range of economic circumstances to have a piece of the action. An appropriate complement to favorable tax treatment of employee stock ownership plans would be a universally available tax credit for individual taxpayers based on the amount of the net increase in their savings during the taxable year. The credit might be allowed at a rate of, say, 10 percent, with an upper limit of, say, $1,000 per return ($2,000 on a joint return).

Relief of some form from the present incremental tax on capital gains is also urgently needed. As this Committee is well aware, the deduction for one half of realized capital gains is widely identified by tax "reformers" as one of the principal "loopholes" in the income tax. In fact, however any tax on capital gains is an

additional tax on the returns to saving; it is a negative "loophole" which should be eliminated by excluding capital gains and losses entirely from the calculation of taxable income. Short of this drastic step, some measure, perhaps fully excluding the first $1,000 of capital gains each year provided the proceeds from the disposition of capital assets are fully reinvested in others, is highly desirable.

A long overdue tax revision is to replace our archaic depreciation system with a capital recovery system, based on short, standard recovery periods for all machinery and equipment and business structures. Also highly desirable would be to make the investment tax credit permanent and uniformly applicable to all classes of property and taxpayers, preferably at a substantially higher rate than at present.

There is a growing consensus that the corporation income tax should be eliminated. This tax is a differential and very heavy excise on saving invested in corporate equity capital. As such, it contributes significantly to distortion of corporate capitalization, Far more important, its adverse effects are diffused, through the operation of the capital market, to all capital, depressing the overall private saving and investment rate. Useful initial steps toward the elimination of this tax would be reduction in the normal and surtax rates and elimination of the present double tax on distributed corporate earnings.

Proposals of this sort are opposed by some on the basis that they would result in excessively large revenue losses for the Treasury and by others on the basis that they would not be effective. Neither view, in my judgement, is well taken.

The kind of tax revision briefly described above would reduce the cost of saving, i.e., it would take less pretax current income than at present to acquire a given amount of after-tax future income. This reduction in the cost of acquiring

future income would certainly result in an increase in the amount people would save out of their current disposable incomes. This increase in saving would be matched by an increase in capital formation. The expansion of capital formation above the levels that would otherwise occur would add immediately to total production activity, to the extent that existing production capability could be more intensively utilized or that more individuals would be induced to enter the labor force; over the longer term, the expanded stock of capital would increase aggregate production capability, total output, hence total income. The tax base, therefore, would expand more rapidly than otherwise. The net effect on Federal tax revenues, accordingly, would be far different from the misleading initial impact revenue estimates customarily provided --- estimates which unrealistically assume that taxpayers are completely inert and unresponsive to changes -in tax provisions. Indeed, many tax proposals which appear to be revenue losers when only the initial impact revenue effects are considered turn out to be revenue gainers when their effects on economic behavior are realistically analyzed. Unfortunately, the net revenue effects, which take account of adjustments to tax changes, are seldom presented to the tax-writing committees of the Congress by Congressional staff or the Treasury experts. For example, a recent Committee Print of the Senate Committee on the Budget shows substantial revenue losses in fiscal years 1975-1977 from the Investment Tax Credit)[1] As the authors of the report acknowledge, these estimates "... do not take into account any effects that the removal of one or more of the items might have on investment and consumption patterns or on any other aspects of individual taxpayer behavior, general economic activity..."[2] What useful construction or interpretation can be placed on initial impact revenue

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[1] Tax Expenditures, Compendium of Background Material on Individual Provisions, March 17, 1976, pp, 57-59.

[2] Ibid., page 3.

estimates, I must confess, eludes me entirely. I respectfully urge this Committee to ignore such revenue estimates in assessing the desirability of proposals for tax revisions.

Conclusion

The U.S. economy faces serious challenges as far into the future as our data and analytical skills allow us to project. Successfully dealing with these challenges will provide enormous rewards for all Americans. Whether we deal successfully with them will depend in large part on the future thrust of public policy, which in turn will largely depend on decisions made now and in the near future.

This Commitee, I am sure, has noted the public policy tendency to treat each new problem presented to public policy makers as evidence of the failure of the private market system. An objective examination of the evidence, however, urges that our unhappy economic record of recent years is the outcome of excessive and inept governmental intrusion in the operation of the economy, accelerating over the years.

The decisions this Congress makes about the basic content of economic policy will have a major bearing on whether the economy thrives, whether individual freedom, responsibility, self-reliance, and initiative will be encouraged and enhanced, on the one hand, or whether the economy and all its participants wil become increasingly wards of the Federal, State, and local governments. In the field of public finance, the first course of action calls for a tight rein on government spending and tax revisions aimed at making the tax system less repressive of effort, of saving, and of investment. The latter course of action calls for an expansionary expenditure policy, larger deficits, hence greater displacement of private saving and capital formation, government planning of economic activity, and increasing government employment.

Past Congresses have faced similar challenges. In the early 1960's, confronting economic circumstances not too disimilar from today's, the Congress was asked to make a similar choice. The options were elegantly expressed by the then Chairman of the Committee on Ways and Means on September 16, 1963. I can think of no way to improve on that statement. With your permission, I would like to quote briefly from it:

"The purpose of this tax reduction and revision bill (H.R.8363) is to loosen the constraints which present Federal taxation imposes on the American economy. The results of these tax reductions and revisions will be a higher level of economic activity, fuller use of our manpower, more intensive and profitable use of our plant and equipment; and with the increases in wages, salaries, profits, consumption, and investment, there will be increases in Federal tax revenues. ...there are two roads the Government could follow toward a larger, more prosperous economy -- the tax reduction road or the government expenditure increase road. There is a difference -- a vitally important difference -- between them. The increase in Government expenditure road gets us to a higher level of economic activity with larger and larger shares of that activity initiating in Government -- with more labor and capital being used directly by the Government and with more labor and capital in the private sector of the economy being used to produce goods and services on Government orders. The tax reduction road, on the other hand, gets us to a higher level of economic activity -- to a bigger, more prosperous, more efficient economy -- with a larger and larger share of that enlarged activity initiating in the private sector of the economy -- in the decision of individuals to increase and diversify their private consumption and in the decisions of business concerns to increase their productive capacity -- to acquire more plant and machines, to hire more labor, to expand their inventories -- and to diversify and increase the efficiency of their production."

The thrust of public policy --- particularly tax policy --- urged in that statement is even more appropriate today than it was in 1963. The Congress responded affirmatively then; hopefully, it will do so again in the very near future.