Key Areas in Current Economic Policy*

By DOUGLAS DILLON
Secretary of the Treasury

I am well aware how difficult it is to gather and understand economic facts—let alone interpret them—when the facts themselves are constantly changing. For, in the fluid and intricate economic picture, appearances can be deceiving—and foresight must rely heavily upon a hindsight that is itself often elusive and uncertain. As a result, sound and imaginative evaluation of national economic policy is extraordinarily difficult. With this in mind, let me examine briefly with you today some areas of economic policy in which I have direct responsibility.

The most urgent economic business before this nation is the President's tax program. It has quite naturally dominated the public discussion of economic matters. That discussion has inevitably brought forth disagreements and misconceptions about the program. But it has also served to strengthen the widespread consensus among all segments of our society that the President's principal proposal —substantial tax reduction *this* year—is our best hope of accelerating the forward pace of our economy. Let me recall some of its main features:

The President has proposed a cut in the corporate tax rate from 52 to 47 per cent to supplement last year's 7 per cent tax credit for productive new investment and the liberalization of the rules and procedures governing tax treatment of depreciable equipment. Those two measures reduced business taxes by $2.5 billion a year. The proposed five-point corporate tax rate reduction would cut business taxes by another $2.5 billion by the time the program is fully in effect. This total of $5 billion would give business 40 per cent of the over-all tax reduction, provide a strong and continuing stimulus toward accelerated economic growth, and increase the profitability of new business investment by almost 30 per cent.

The effectiveness of last year's tax changes on capital investment is impressive indeed. The latest McGraw-Hill survey of capital spending estimates that expenditures for plant and equipment in 1963 will rise to $40 billion from a level of just over $37 billion for 1962. Last year's tax reforms are responsible for at least 43 per cent of the increase.

But the whole job cannot be done solely by stimulating business investment. No company will produce more goods without markets to absorb them. And the best way to assure those markets is to increase consumer purchasing power. The President's program would do that by reducing personal income tax rates from the present range of 20 to 91 per cent to a much lower range of 14 to 65 per cent. Such a cut in individual tax rates, combined with the proposed corporate rate reduction, would total $13.6 billion. When the various structural reforms that have been recommended are taken into account, the net reduction would amount to $10.3 billion.

The impact of that over-all cut would be felt much quicker than most people realize. If the President's program were to receive final approval by October 1, over $10 billion would be released into the economy within the following fifteen months—and some $8 billion of that amount would represent increased consumer purchasing power. The stimulus of a $10 billion tax cut would not stop there. For example, the Joint Economic Committee of the United States Congress had estimated that it would eventually increase our annual gross national product by $40 billion.

Those, then, are some of the main features of the President's tax program. As an inevitable result of the legislative process, that program will be somewhat revised by the time the tax bill emerges from the House Ways and Means Committee some weeks hence. However, I am confident that the bill the Committee reports out will be one that we can all support wholeheartedly.

Thus far, much of the discussion on tax reduction has centered, not on specific tax proposals, but on expenditure control. If the heat of that discussion has sometimes obscured the facts, I think they are now beginning to come through quite clearly—including the fact that an

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exceptionally large portion of the expenditure increases during this Administration has occurred in the areas of defense and space.

One particularly enlightening comparison shows that, leaving aside only defense and space, all other Governmental expenditures in the three-year period 1958-61 increased by $800 million more than they will in the first three years of the present Administration. That comparison shows, cogently and unanswerably, that this Administration has continually exercised a firm control over expenditures. And it offers the strongest possible endorsement of what is by far the most significant fact in the present discussion of tax reduction and expenditure control: the President's repeated commitment that, as the economy expands in response to tax reduction and Federal revenues increase, a substantial portion of those increased revenues will be used to reduce and eliminate the current deficit.

Last week, this issue of expenditure control was raised in an old and familiar context—when the House of Representatives debated the proposal to raise the temporary debt limit between now and the end of August, and once more brought a hardy perennial to the forefront of the news. As that debate made clear, there are few areas of fiscal policy as much in need of more light and less heat as the debt limit. I should like to try to supply some needed light:

First, let no one labor under the delusion that the debt ceiling is either a sane or an effective instrument for the control of Federal expenditures. No one is more conscious than I of the need to keep Government spending under firm control. But this cannot be done by trying to exert controls at the tag end of the expenditure process, when the bills are coming due. The debt limit is not and cannot be made a substitute for the control of expenditures at the decisive stage of the expenditure process—when the funds are being appropriated.

Second, since the Executive Branch cannot refuse to pay the bills incurred in carrying out the programs approved by the Congress, the only alternative is simply to delay paying them. That is exactly what happened in 1957, when an unrealistic debt ceiling forced the Executive to defer payment on its bills. No expenditures were cut back; they were simply postponed and Government contractors had to wait for their money. The unhappy economic effect of that unrealistic 1957 debt ceiling—in combination with other restrictive fiscal measures—needs no retelling here. But anyone who recalls the lesson of 1957 —the year from which we date the pattern of slow economic growth which the President's tax program is designed to alter—is not likely to forget it.

Third, the temporary debt limit approved last week by the House, and currently before the Senate, would provide the absolute minimum levels needed by the Treasury for the proper management of the Federal debt and the Treasury's cash balance. These limits—$307 billion through June, and $309 billion throughout July and August—are tight, so tight that they provide little or no room for meeting unforeseen contingencies. The Treasury can attempt to operate within these limits only because it is likely that our expenditure estimates for so short a period will be reasonably accurate and our revenues are unlikely to fall below estimated levels. In addition, since Congress will be in session until some time in the fall, we could always obtain new debt limit legislation, should it be necessary, without having to call a special session of Congress.

And fourth, should we be required to operate between now and the end of August under the present debt ceiling of $305 billion, it would no longer be possible to handle the finances of the United States Government in a prudent and responsible manner. We would be forced to resort to an array of unusual financial procedures of the sort which had to be used in 1957-58—procedures which, in the end, would only add to the burdens of the taxpayers of this country. A $305 billion debt limit would also deprive us of one of our most important tools for keeping our short-term interest rates competitive with rates abroad: the ability to add to the market supply of short-term Government securities when the occasion demands. The timely use of this technique has undoubtedly helped reduce the outflow of short-term funds throughout the past two years by many hundreds of millions of dollars. It is no exaggeration to say that part of the price of an unrealistically restrictive debt limit would have to be paid in gold.

Those are but a few examples of the havoc that can be wrought in the name of fiscal responsibility. I think they make it obvious that the debt ceiling is not only the wrong instrument to use in attempting to control Federal expenditures, but that an unduly restrictive ceiling could place this country in an untenable fiscal situation. I suppose it would be unrealistic to expect that the seasonal storm over the debt limit through which we are now passing will not deluge us in future years. But I *do* hope, for the sake of fiscal sanity and prudence, that its intensity may clear the air and generate some fresh and lucid thinking about the whole question of the debt limit.

Another vital, if less incendiary, problem that is now receiving considerable attention is our balance-of-payments position. More specifically, some in this country have recently expressed concern over the adverse impact on

our payments balance of foreign borrowing in the United States capital market, and have suggested that through one means or another, we make access to our market more difficult or more expensive.

Unquestionably, a large amount of money is being raised in our capital market by borrowers from countries which enjoy healthy surpluses in their own payments position. That is natural enough, since foreigners can find in our financial market what they often lack in their own: unmatched facilities and resources, and freedom from excessive government regulations. It is a market in which both borrower and lender can operate with maximum efficiency and minimum difficulty.

Although foreign borrowers undoubtedly contribute to our payments imbalance, it would be a short-sighted solution indeed if we were to make the facilities and resources of our capital market less available to them. The real solution—as I urged more than a year ago in Rome—is the development of capital markets in Europe and elsewhere that are better able to meet the needs of their own nationals, and that are more accessible to borrowers from other countries as well. That calls for removal of existing government restrictions, enlargement of capital resources, and improvement of facilities to increase the efficiency of doing business.

I am glad to say that some progress in this direction has been made and that more can be expected. But the development of markets more comparable to ours will take time. Meanwhile, there is every reason to maintain free access to our market, so that it can continue to function as an important part of the international payments system.

It is not enough, however, to encourage progress in improving markets abroad. We must equally encourage the participation of foreign capital in our own market. If we take full advantage of the possibilities of attracting foreign capital—as borrowers are now attracted—we can offset to a great extent the outflow of funds from the sale of foreign issues here.

We would, for example, like to see underwriters in this country seek actively and energetically to put the highest practicable proportion of their new foreign issues into the hands of foreign subscribers. Moreover, in order to give more foreign subscribers a greater opportunity to invest in these issues, we would like to see more of them publicly marketed, rather than privately placed.

When issues are privately placed—and private placements accounted for more than half of the new foreign issues in our market last year—they are offered almost exclusively to United States investors. Last year, for example, almost all of the Canadian and Latin American issues, which together accounted for a large part of the foreign use of our market, were private placements.

On the other hand the buyers of publicly placed new foreign issues are by no means all Americans. Last year foreigners purchased more than one third of the publicly offered foreign issues. The willingness of foreigners to purchase new foreign issues in our market reflects the attractiveness of our facilities to both borrowers and lenders. Because of that fact, we have every reason to strive to develop and exploit our techniques for selling not only goods, but also securities, to foreign buyers. We have undertaken a great drive to expand our exports—a drive that is imperative if our receipts from exports are to meet the irreducible cost of our defense and aid commitments abroad and match the outflow of American long-term investment. We need an equally determined drive by the financial community to sell its very unique range of products.

This, then, has been a brief look at some aspects of the current economic scene. The outlook for the future no one can predict with certainty. But I think most of us will agree that the signs are generally favorable.

In the short run, our economic picture looks bright, but not perhaps so gloriously rosy as some would paint it. Our present economic upturn is heartening. A number of economists, after scrutinizing the latest pattern of the indicators, and paying particular attention to the rising level of capital investment, are hoping for a long-run upswing to near boom-time levels. My feeling, while genuinely optimistic, is not quite so sanguine as this. Last January, the President's Council of Economic Advisers estimated that 1963 gross national product would fall within a range of $5 billion either side of the $578 billion figure that was used as the basis of our revenue forecasts. It now looks like the high side of that range might be about right. That is what I had in mind when I suggested earlier this month that, if the present improvement continues, Federal revenues might perhaps exceed our estimates for fiscal 1964 by as much as $1 billion. But even such a result would not lead to any appreciable improvement in our employment situation. For that, we must look to tax reduction.

The first-quarter balance-of-payments picture is perhaps less rosy, and I think it would be unrealistic to look for any sudden solution in this area. Because we are relying on the slower, but surer, solutions brought about by a market economy, it is entirely possible that this year's deficit will still be comparatively large. Obviously, the payments deficit is a stubborn problem but with the Trade Expansion Act of 1962, the Revenue Act of 1962, and particularly with the prospect of a meaningful tax

program this year, we will certainly have the tools to work more effectively for a solution.

The answers to this and other vexing economic questions require close cooperation between the public and private sectors of our society. They also call for wider discussion of the major issues and broader understanding of their implications for the individual citizen and for the nation—the sort of informed public understanding that the specialists in the business and financial press can help to generate. With your help—and as President Kennedy said recently—"with the help of all of those in business, labor, and other professions who share your concern for the future, we shall build a future from which all Americans can take pride as well as sustenance".