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THE WHITE HOUSE

WASHINGTON

April 21, 1975

MR. PRESIDENT:

The attached is forwarded for your reading.

Don

Central Files THE PRESIDENT HAS SEEN

XII

March 30, 1975

The Economy Today, by Herbert Stein

We now have our third anti-recession tax cut. The Kennedy-Johnson tax bill, enacted in 1964 was the first to be chiefly motivated by the desire to stimulate the economy. President Nixon's of 1971 was the second and President Ford has just signed the third.

Cutting taxes has been established as a routine way of dealing with a recession in the United States. Conservatives should be pleased by this. The idea of using the budget to fight recessions at first meant only that government spending should be increased in a recession. But conservatives argued that the result would be a stair-step increase of expenditures in each recession, which would not be reversed but would lead to government taking an ever-rising share of the national income. They maintained that it would be better to give the money back to the taxpayers and so foster the private sector rather than the government sector. The acceptance of tax-cutting as an anti-recession measure is thus a conservative triumph.

Of course, this is a triumph only on the assumption that the expenditure increases that would have made otherwise are not piled on top of the tax cuts. This is a reasonable assumption. No one worries about balancing the budget anymore, but even Congressmen worry about the size of the deficit. They may not agree with President Ford that $60 billion is the largest tolerable deficit for fiscal 1976. But they do have a limit, which may be $80 billion or $100 billion, and whatever the limit it leaves less room for increasing expenditures if taxes are cut.

If cutting taxes in a recession is going to be regular procedure we should see whether we can make it more orderly and efficient. This means two related things. The cut should be quick and it should be clean. It should be quick so that its stimulative effect will start early in the recession and not when recovery is under way. It should be clean - simple and neutral - partly because that will help to make it quick and partly because complicated provisions enacted in a hurry are likely to make bad tax law.

The tax act just signed was enacted fairly quickly - in about 2 1/2 months from its proposal by the President. Still, given the national consensus about a tax cut, in 1975 it might have been done sooner. A more important complaint is that the bill contained a large amount of garbage, irrelevant to the main purpose of stimulating the economy by permitting taxpayers to spend more of their own money. This garbage is bad in itself as well as for its effect in delaying the Act.

The Act will distribute sums of money among sellers and buyers of new houses in existence or under construction on March 25, a move unlikely to have a significant effect on the volume of new construction. It reduces percentage depletion, which should be done in proper circumstances, but does it in the most demogogic and discriminatory way possible. It puts American corporations at a disadvantage in comparison with foreign corporations doing business abroad. And on and on.

One shouldn't be too indignant about this. President Ford was right in concluding that the bill was not bad enough to veto. But we could have done better.

Congress should develop better procedures for handling the tax side of the budget as an instrument for fighting inflation or recession. It has turned a deaf ear to repeated suggestions that it should give the President authority to make limited

and temporary tax changes, subject to a Congressional veto. But Congress could do much to clean up its own operation. It could provide for some committee, perhaps the Joint Economic Committee or a newly created Committee of the Congress, to recommend a change of taxes up or down for a specified period. The Committee might be authorized to recommend that all individual and corporate income tax rates be raised or lowered by an equal amount, not more than, say, 5 percentage points, for a period of not more than one year. The rules of the House and Senate should provide for the recommendation to be voted up or down within a period of 30 days. No amendment would be permitted except, possibly, a change in the amount of the rate increase or reduction. Presidential approval would be required before the change went into effect. Having arranged all this, Congress could proceed with tax reform in the proper deliberate way.