# PROPOSALS TO INCREASE THE INCOME TAX PERSONAL EXEMPTION

## HEARINGS

BEFORE THE

## COMMITTEE ON FINANCE
## UNITED STATES SENATE

NINETY-THIRD CONGRESS

SECOND SESSION

MARCH 19 AND 20, 1974

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# PROPOSALS TO INCREASE THE INCOME TAX PERSONAL EXEMPTION

**TUESDAY, MARCH 19, 1974**

U.S. SENATE,
COMMITTEE ON FINANCE,
*Washington, D.C.*

The committee met, pursuant to notice, at 10 a.m. in room 2221, Dirksen Senate Office Building, Senator Herman E. Talmadge presiding.

Present: Senators Talmadge, Hartke, Harry F. Byrd, Jr., Mondale, Bentsen, Bennett, and Curtis.

Senator TALMADGE. The committee will please come to order.

Senator Long regrets that he will be unable to be with us today.

In January, the Senate approved an amendment to increase the income tax personal exemption from $750 to $850. This increase would cost the Treasury an estimated $3.5 billion annually. Both the amendment and the bill it was added to were recommitted to the Finance Committee for further study. It is the purpose of these hearings today to look into the amendment approved by the Senate as well as other proposals for tax cuts to individuals designed to stimulate the economy.

Our first witness this morning will be the Honorable George P. Shultz, Secretary of the Treasury, who will present the administration's position on these measures.

Mr. Secretary, may I add that it is and has been a pleasure to work with you as Secretary of the Treasury in your grave responsibilities under very trying conditions. I, for one, regret your decision to leave Government service. But I fully understand the desires and motivations that necessitated it.

You may proceed in your own way, and if there is no objection, we will let the Secretary complete his entire statement before questions. And then I would suggest that each Senator limit himself to 10 minutes on the first round. If there is no objection?

Senator Mondale?

Senator MONDALE. If the Senator would yield, please, I would like to join with the chairman in expressing my apreciation and admiration to the Secretary for his superb management of the various offices he has held, including that of Secretary of the Treasury. As the Secretary knows, I have not always agreed with him, but I have always considered him to be extremely able, decent, publicly spirited and thoughtful, and an honest public servant. And it has been an honor to serve with you.

Senator BENNETT. Mr. Chairman, Senator Packwood will be absent from this hearing today and tomorrow. He is in his home State on official business. I know of his interest in the tax issues that will be discussed here, and I am sure that he will be playing an active role in our consideration of the issues that are raised.

Senator TALMADGE. We will print the committee press release at this point in the record.

[The press release follows:]

PRESS RELEASE

FOR IMMEDIATE RELEASE
March 12, 1974

COMMITTEE ON FINANCE
UNITED STATES SENATE
2227 Dirksen Senate Office Bldg.

FINANCE COMMITTEE TO HOLD HEARINGS ON ANTI-RECESSION TAX MEASURES

The Honorable Russell B. Long (D., La.), Chairman of the Senate Committee on Finance, announced today that on March 19, 1974, the Committee will hold hearings on proposals to stimulate the economy by increasing the income tax personal exemption, by providing tax credits, or by other tax measures.

The Honorable George P. Shultz, Secretary of the Treasury, will present the Administration's position on these measures.

Senator Long stated: "Two months ago, the Senate approved a four billion dollar amendment to increase the personal exemption by $100 so as to stimulate the economy.

"The amendment and the bill to which it was attached were recommitted to the Finance Committee for further study. These hearings will permit the Committee to examine both the proposal to increase the personal exemption and other suggestions that have been made to increase purchasing power and stimulate the economy."

The hearings will begin at 10:00 A.M., March 19, and will be held in Room 2221, Dirksen Senate Office Building.

Requests to testify. -- Persons desiring to testify during the hearings must submit written requests to testify to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C., 20510, not later than Friday, March 15, 1974. Witnesses will be notified as soon as possible that they are scheduled to appear.

Written statements. -- Witnesses who are not scheduled for oral presentation, and others who desire to present a statement to the Committee, are urged to prepare a written position of their views for submission and inclusion in the printed record of the hearings. These written statements should be submitted to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building not later than Friday, March 22, 1974.

PR#62

Senator HARTKE. I intend to introduce today a bill which would increase the personal exemption on Federal income tax returns from $750 to $1,000. This is a proposal which I first made in April of 1969; I believe that it is all the more necessary today.

There is every indication that our economy is headed for a recession. Unemployment insurance claims rose from 251,000 in November to 303,000 in December. It is now at a 5.4-percent level and even administration economists are predicting a 6-percent rate later this year.

The Government's composite index of business statistics virtually stood still in December, growing only one-tenth of 1 percent in December.

While this slowdown is taking place, inflation is on the march. Consumer prices as a whole went up 8.8 percent last year, with food increasing 20 percent, gasoline 19 percent, and coal and fuel oil 45 percent. Workers cannot keep pace with this steady increase in prices. What wage increases have taken place have only meant increased taxes, thus further limiting the ability of workers to spend money to stimulate the economy.

In fact, in 1973, real average weekly earnings—the amount of money workers actually get—were down 1.5 percent. That means that a worker who increased his salary by 7.2 percent—the national wage increase average—actually wound up in worse condition at the end of the year than at its beginning.

The most effective response we can make to this approaching inflationary recession is to provide tax relief which will put more money into use so that our economy can grow. An increase in the personal exemption will provide that relief. Raising the exemption level from $750 to $1,000 will provide $8.58 billion in new consumer purchasing power. Most of the benefits of this relief will be the families who will spend the money provided by my proposal rather than saving it.

I have a table prepared from data supplied by the Treasury Department which estimates the additional revenue which my proposal will pump into the economy at various levels of income, and will submit that table for inclusion in the record.

That table makes it clear that 60 percent of the dollar benefits which will accrue from my proposal go to those with less than $15,000 income. Much of this benefit will go into areas of the economy which are suffering from a slowdown caused by reduced consumer purchasing power.

[The table referred to follows:]

REVENUE COST IF PERSONAL EXEMPTION IS RAISED FROM $750 TO $1,000

[Based on 1972 income levels]

| Adjusted gross income | decrease in tax liability (millions) | Distributon of tax decrease: Percent | Distributon of tax decrease: Cumulative Percent |
|---|---|---|---|
| 0 to $3,000 | $95 | 1.1 | 1.1 |
| $3,000 to $5,000 | 418 | 4.8 | 5.9 |
| $5,000 to $7,000 | 717 | 8.3 | 14.2 |
| $7,000 to $10,000 | 1,485 | 17.3 | 31.5 |
| $10,000 to $15,000 | 2,608 | 30.4 | 61.9 |
| $15,000 to $20,000 | 1,541 | 17.9 | 79.8 |
| $20,000 to $50,000 | 1,440 | 16.8 | 96.6 |
| $50,000 to $100,000 | 220 | 2.5 | 99.1 |
| $100,000 and over | 56 | .7 | 99.8 |
| Total | 8,580 | 99.8 | 99.8 |

Senator HARTKE. It is the working man and woman in this country who is on the short end of the administration's economic stick. It is the worker who has to pay the grocery bills, the mortgage, and the college tuition bill with less money in 1974 than he had in 1973.

These people need tax relief now, and our economy needs a tax stimulus now.

The cost of living has risen 13 percent since the $750 exemption level was established. If we increase that level to $1,000—as I propose—we will be doing nothing more than keeping pace with inflation and the cost of living.

Senator TALMADGE. Is there any objection to limiting interrogation on the first go-round to 10 minutes?

Without objection, it is so ordered.

Mr. Secretary, you may proceed, sir.

## STATEMENT OF HON. GEORGE P. SHULTZ, SECRETARY OF THE TREASURY

Secretary SHULTZ. Thank you, Mr. Chairman and members of the committee. I certainly appreciate the comments that you made, that Senator Mondale made, and while we have had our arguments in this committee occasionally, and Senator Byrd is not here this morning, but I guess I have argued with him about as much as anybody.

But, it has been a fine committee to work with and appear before. I think the first substantive committee that I did appear before in the Senate was this committee and, as I remember, it was way back in early 1969 on the subject of unemployment compensation, a subject that I will comment on further here today. But, I have had the privilege of a long association with you.

I appreciate the opportunity to share with you the views of the administration on the question of whether to cut personal income taxes at this time. At the outset, I want to say that nothing would please us more than to lower taxes, if this were to be accompanied by at least as large a cut in Federal spending, done in a responsible manner so as not to detract from our pursuit of vital national objectives. Nothing in the proposals I have seen, however, suggests that a spending cut is what their proponents have in mind. To the contrary, their idea is to reduce taxes without cutting spending, thereby increasing the currently projected budget deficit by the same amount, in order to stimulate the economy by increasing aggregate consumer demand.

We are opposed to the suggested tax cuts for several reasons. First, Government policy is already responding to the economic slowdown brought on by the oil embargo. Our first line of defense in combating a rise in unemployment is the automatic stabilizers that are built into the economy. The automatic stabilizers are an important reason the budget is now moving toward a larger deficit. Not many months ago, we were anticipating a balanced budget for fiscal year 1973. Our projection now is that we will have a deficit of $4.7 billion. In fiscal year 1975, the deficit is expected to rise to $9.4 billion. These deficits will support economic activity during its period of weakness early this year, and help prevent the economy from sliding into a real recession.

Our unemployment insurance system is a most important automatic stabilizer. It comes into play automatically and without delay when the economy begins to slip, cushioning the loss of income for workers who are laid off. The money is there when the worker most needs it. The program also phases out automatically when employment picks up again. I might say beyond that fact that it goes to the places, as well as to the people, who become unemployed, which means that it has a sharp geographical focus to it.

Almost a year ago, the President proposed a major strengthening of the unemployment insurance system. Under this proposal, higher minimum unemployment benefit standards would be established and coverage would be broadened. This year, the President has recommended additional amendments to extend the duration of benefit entitlement and to expand coverage in those geographic areas that experience significant increases in unemployment.

Unfortunately, the Congress did not act on the President's proposals in 1973. I think it is of crucial importance that the Congress make up for lost time and strengthen the unemployment insurance system at the earliest possible date. With unemployment rising, there is no time to waste.

Where economic weakness is concentrated in a handful of industries rather than being all-pervasive, measures like unemployment insurance are far better targeted to cushion the impact on those directly affected than is a general tax cut, which does nothing directly for the unemployed and simply provides unneeded stimulus in areas of the economy already suffering from supply shortages and severe inflationary pressures.

Beyond the support provided by the automatic stabilizers, the economic weakness we are now experiencing, or are likely to experience in the months ahead, does not appear to be severe enough or widespread enough to call for additional fiscal stimulus. I say additional fiscal stimulus because, as I pointed out, there already is considerable built into the budget. Although there has been some slowdown of the economy, this slowdown began from a point where overall output was pressing hard against the capacity to produce. Thus, the economy is still operating at a high level. Employment on nonfarm payrolls increased to an all-time high in February. Industrial production had declined only 2 percent from its November high, due mainly to the automobile cutback. The unemployment rate had risen, but the rise was quite concentrated, industrially and geographically; over much of the country, unemployment rates were still low in February.

There have been significant reductions of economic activity in particular sectors of the economy—for example in automobile production, airline travel, recreational activity, and service-station employment—all attributable to the abrupt change in the availability of energy. More generally, housing has been in a slump and retail sales measured in constant dollars have been on a plateau since the first half of 1973.

We must bear in mind, furthermore, that the statistics for the relatively weak first quarter will be published, after the usual lag, in April and May. They will be referring to an economic performance that is past, and they will be doing so at a time when the expansion may already have begun. In other words, we are going to have statistics on the relatively weak first quarter being published this month, next month, the month after that, and it is always a problem in economic policymaking to be reacting in terms of the future, rather than in terms of past. These statistics will keep drumming on us the problems that we have and may not allow us to see as clearly as we might what the future is which, of course, is what we must address ourselves to.

We do not now have evidence that renewed economic growth is underway. There are, however, clear indications of sustained strong demand conditions through most of the economy. There has been a continuance, even an increase, in the already high backlogs of manufacturers' unfilled orders. Many industries—including steel, nonferrous metals, machinery, electronics, chemicals, paper, agriculture, and others—continue to operate at essentially flatout, full capacity. The continued upward pressure on the prices of basic agricultural and industrial commodities further demonstrates the absence of general demand weakness that would normally be associated with a cyclical downturn.

It is difficult to see any persuasive signs of broadly based or cumulative reduction in demand for the economy as a whole that might call for added fiscal stimulus. The continued basic strength of the economy is reflected in numerous ways. One favorable factor is the capital investment boom, which continues unabated. If anything, businesses are still revising their investment plans upward. Another is strong inventory demand, and modest ratio of stock to sales in most sectors. Government spending is on the rise, too, at both the Federal and local levels. Furthermore, it appears that housing, hampered last year by mortgage-money shortages, should soon enjoy an upswing from the improved flow of funds into the mortgage-granting institutions.

In those industries where the energy problem has caused a decline in demand and production, we should also remember that the situation contains at least some of the seeds of its own rejuvenation. The best example is the automobile industry, where assembly lines are now being converted from standard-size to smaller cars. This conversion takes time—as much as 8 to 10 months. Since the demand for small cars continues strong, once the assembly lines are restructed, laid-off workers will be rehired to produce more small cars. The forces for revival would be further strengthened if the oil embargo comes to an end and oil output in the Persian Gulf area increases, as the announcements that we heard late yesterday suggests is taking place.

Taken together, these factors point clearly toward two conclusions: that the hesitancy in consumer spending and the cutbacks in automobile production and other directly energy-related areas are not having a cumulative, falling-domino effect in other parts of the economy, and that before too long the economy is likely to bounce back and resume its normal posture of growth. Consequently, neither the current economic situation nor the outlook for the remainder of the year indicates that there is a need for additional economic stimulus at present.

Another fundamental reason for this conclusion is the fact that inflation remains an extremely difficult problem. In 1973, we experienced a surge of inflation; consumer prices increased 9 percent and wholesale prices rose 18 percent. In the past 3 months for which we have figures, consumer prices rose at an annual rate of 10 percent and wholesale prices at an annual rate of 20 percent. Even if we exclude farm, food and fuel prices, where extraordinary factors are at work, other consumer prices were rising at an annual rate of over 4 percent and wholesale prices at an annual rate of 19 percent. With large food and fuel price increases still working their way through the economy, the price indexes will continue to rise rapidly in the first half of 1974. Thereafter, although some easing of pressures should take place, the basic rate of inflation might remain very high, perhaps around 5 percent.

It is fair to say, I think, that the second half of 1974 will be a crossroads for the future of inflation in America. The situation will be sensitive to an acceleration of inflation. Economic activity will be rising. In many sectors there will be shortages. Experienced labor will not be abundant. The memory of earlier inflationary surges will be fresh in everyone's mind. It will be a condition in which, if the economy moves ahead too fast, we could get a step-up in the inflation years from which it will be hard ever to retreat. We could build the 1973–74 surge of commodity inflation into the economy in a way that would take a severe economic bust to dislodge.

I realize, of course, that this view of the future may overstate the inflation danger. However, it is also possible to underestimate that danger. We have gone on too long taking too many risks on the side of pumping up the economy and neglecting the inflationary consequences. Our responsibility for the future of the country requires us not to do that again, however tempting the immediate political or economic gains. If we prove to be wrong in our diagnosis of the current situation, and if a widespread economic decline does appear to be building, we should of course have on the shelf appropriate counteractions. It would be irresponsible of us to fail to prepare for the possibility that a deeper and more prolonged sag in economic activity will take place. Our projections could turn out to be incorrect; as we all know very well, there is no sure thing in economic forecasting. With this in mind, we have prepared contingency plans to add temporary stimulus should it prove necessary. At present, however, we think the odds are decisively the other way.

However, if a further stimulus to demand is required, the method of a general tax cut does present some real problems for the committee to consider. The idea of cutting taxes raises an especially serious question about long-term fiscal responsibility. We all know that it is much easier to cut taxes than to raise them. Thus, if we reduce taxes now, how are we going to get the revenues that will be needed to cover Federal spending when the economy returns to full prosperity?

In addition, past experience demonstrates that enactment of major tax legislation tends to be very time-consuming. Even where all are agreed that a general tax cut is desirable, there is bound to be lengthy political pulling and hauling over just who gets what cut. Tax bills become vehicles for all kinds of unrelated tax proposals. The question becomes a part of the general effort for reform and simplification—an effort whose objectives we support wholeheartedly, and I hope the Congress will work on wholeheartedly this year. But, it is a very complicated proposition. But these are not matters for which there is any obvious solution or a readily achieved consensus, as the many proposals which you referred to, Mr. Chairman, suggest. Thus, there is no guarantee that a cut can be enacted in time to moderate a possible economic downturn. Its effect would be likely to come after the economic weakness is behind us, and it could, then, exacerbate our serious inflationary troubles.

Whether or not additional fiscal stimulus is necessary, there is one measure which we recommend on its merits and which will have the effect of somewhat delaying collections of personal income taxes. This is correction of the substantial income tax overwithholding which currently takes place particularly from salaries and wages going to single-earner households.

You will recall that in 1971, because of concern expressed about underwithholding on wages and salaries of dual-earner households, Congress amended the withholding provisions to provide withholding at a level considered appropriate for households where both husband and wife were working, or where a single wage earner held two jobs at the same time, as well as to reflect the maximum standard deduction. A mechanism was provided under which taxpayers with only a single wage or salary income could claim an additional withholding exemption, thereby eliminating the overwithholding which would otherwise result from the withholding tables new assumption of dual incomes.

In practice, despite widespread publicity given to the right to claim the added exemption, many millions of people who are eligible for the added exemption have not claimed it, and have thereby experienced substantial overwithholding. In some cases, there has been a conscious decision not to claim the added exemption, in order to use overwithholding as a method of savings. A typical person would say, "When I tote up my tax bill at the end of the year, I would rather have the Government owe me something than the other way around." Whatever argument you make, people seem to have that psychology. In many other cases, however, failure to claim the added exemption has undoubtedly resulted from lack of knowledge of the right to do so. The aggregate effect of the dual-earner assumption and the maximum standard deduction revision in the present tables is to increase withholding by about $6 billion a year over what it would be if we made appropriate revisions, and to increase tax refunds the following year by a similar amount.

We recommend to you that the statute be revised to remove this unintended overwithholding. This could be done very simply by revising the withholding tables to eliminate the dual-wage-earner assumption with respect to single-job workers, and to modify the assumption that deductions will be limited to the maximum standard deduction. This step is not only a sound approach to a problem about which we have been concerned since the results of the 1971 change became apparent, but also does not have any of the built-in disadvantages of a tax cut. It preserves fiscal discipline. We recommend this change on its merits and without regard to the stage of the business cycleat which it is enacted. At the same time, however, it would have an immediate one-time impact on spendable incomes and would produce moderate acceleration of demand. Thus, particularly for those concerned about demand deficiencies, this would appear to be a timely moment to make the needed change.

Thank you, Mr. Chairman.

Senator TALMADGE. Thank you, Mr. Secretary.

I understand from the thrust of your testimony that we are over-withholding taxes now to the extent of $6 billion annually?

Secretary SHULTZ. We expect to refund in this tax season something on the order of $23 to $24 billion altogether. That is the amount by which people have overpaid their taxes. It has been a tremendous effort on the part of the IRS to educate people as to the ins and outs of these returns. And, as I said, it just is clear that an awful lot of people just prefer to have overwithholding.

But, there is a technical, so to speak, aspect of the way revisions were made to correct underwithholding. The fact is that people following the tax tables suddenly discovered they were underwithheld and had to pay at the end of the year, and did not like it, so Congress changed that and developed or put the tax tables on the assumption that people had two jobs, or there were two earners in a household. That meant that if something else were not done, single-earner households would be overwithheld and so Congress did provide something else; namely, an amount that could be claimed, $750 in that case. The trouble is that people have not chosen to claim that exemption and the result is that we estimate about $6 billion more withholding than would be the case if people were truly alert to this particular device.

Senator TALMADGE. Now, how much of the $6 billion withheld is attributable to the fact that the withholding rate in the statute is too high, and how much of it is attributable to the fact that the taxpayers did not claim all of their exemptions?

Secretary SHULTZ. Well, I think this particular problem is attributable to the fact that the taxpayers do not claim an exemption that is available to them to claim, and it is clearly there, called attention to; it is typically proper, but they just don't claim it.

Senator TALMADGE. That particular problem then could not be corrected by legislation, could it?

Secretary SHULTZ. Yes, sir, it could be.

Senator TALMADGE. Could we have your technical experts work with our experts on this committee to draft a proposed amendment to correct that, Mr. Secretary?

Secretary SHULTZ. Yes, sir, it is a very simple thing to do.

Senator TALMADGE. It would seem to me it would be the desire of every member of this committee, and probably every Member of the Congress, that we ought not to deliberately withhold by law taxes over and beyond what a taxpayer owes. I, for one, would certainly want to correct that at the earliest opportunity. I think the committee would. You have your staff work with our staff to draft such an amendment and we would appreciate it.

Secretary SHULTZ. All right. If I could just add one thing?

Senator TALMADGE. Oh, certainly, sir.

Secretary SHULTZ. The law is fine, it is just that the method of making the law clear to people when they check off their withholding form for employers does not in a sense force this to their consciousness, and by changing the display of the withholding tables, which has to be done by law, be changed, and we think it would make a substantial impact on the amounts withheld.

Senator TALMADGE. Mr. Secretary, are we in a recession?

Secretary SHULTZ. No, sir, I do not believe so.

Senator TALMADGE. How long will the slowdown in our economy last?

Secretary SHULTZ. Well, our estimate is that in the first quarter of the year, which we have about ended, we will see some decline in real economic growth and in the second quarter we will see a little negative or a little positive growth, but around a flat picture. In the second half of the year, we will see gradually accelerating real growth.

Senator TALMADGE. Will it be real growth or growth attributable to inflation?

Secretary SHULTZ. In my comments to you, sir, I was abstracting from inflation and just talking about real movements in the economy. The actual numbers in GNP will rise throughout this period, but we should not kid ourselves just because the dollars are larger.

Senator TALMADGE. Do you expect personal income to be up this year?

Secretary SHULTZ. Yes.

Senator TALMADGE. Do you expect corporate profits to be up this year?

Secretary SHULTZ. No; we expect a slight decline in pretax corporate profits in 1974.

Senator TALMADGE. Then you expect revenues or tax collections to be up?

Secretary SHULTZ. Oh, yes, sir.

Senator TALMADGE. Above last year?

Secretary SHULTZ. Yes.

Senator TALMADGE. By what percent?

Secretary SHULTZ. We have our projections here and I can give you the percentage and the numbers in our projections. I just do not have it on the top of my head.

We have a table from the Budget on "Budget Receipts by Source," and we expect the receipts to go from something on the order of $270 billion in 1974 to about $295 billion in fiscal 1975. And we have the breakdown of that; $118 billion in individual income taxes in 1974, up to $129 billion in 1975. Corporate taxes from $43 billion to $48 billion.

Senator TALMADGE. Is that in constant dollars?

Secretary SHULTZ. No; these are in current dollars.

[The table referred to follows:]

BUDGET RECEIPTS BY SOURCE

[In billions of dollars]

| Source | 1973 actual | 1974 estimate | 1975 estimate |
|---|---|---|---|
| Individual income taxes | 103.2 | 118.0 | 129.0 |
| Corporation income taxes | 36.2 | 43.0 | 48.0 |
| Social insurance taxes and contributions (trust funds) | 64.5 | 77.9 | 85.6 |
| Excise taxes [1] | 16.3 | 17.1 | 17.4 |
| Estate and gift taxes | 4.9 | 5.4 | 6.0 |
| Customs duties | 3.2 | 3.5 | 3.8 |
| Miscellaneous receipts [1] | 3.9 | 5.0 | 5.2 |
| Total budget receipts | 232.2 | 270.0 | 295.0 |

[1] Includes both Federal funds and trust funds.

ECONOMIC ASSUMPTIONS

[Calendar years in billions of dollars]

| Description | 1972 actual | 1973 estimate | 1974 estimate |
|---|---|---|---|
| Gross national product | 1,155 | 1,288 | 1,390 |
| Personal income | 939 | 1,035 | 1,135 |
| Corporate profits before tax | 98 | 126 | 124 |

Source: The Budget Document, fiscal year 1975, p. 45.

Senator TALMADGE. You have about a 7-percent inflationary factor there, and it would be just about constant then, would it not?

Secretary SHULTZ. It looks as though there is a small increase in real terms here, Mr. Chairman, but not much.

Senator TALMADGE. Even with 7 percent inflation?

Now, Mr. Secretary, what is the administration's view on controls? As you know, the bill expires April 30 this year. Do you want controls junked or do you want them continued?

Secretary SHULTZ. We believe that the Cost of Living Council should be continued, that it should have the statutory duty to monitor developments within the Government, where something is happening that has an inflationary impact, and to provide the force within the Government calling peoples' attention to those problems. We think that there are a number of matters of information collection that the Cost of Living Council should do. We think it should be in a position to monitor the agreements that we are making with various industries as to their performance through this year as we decontrol industries.

Senator TALMADGE. When you say "monitor" does that mean to veto or approve them or to stand by and look at them?

Secretary SHULTZ. Stand by and look at them and raise hell about it if they do not meet the commitments and if there is not some reasonable reason given for not meeting the commitments.

Senator TALMADGE. Is it your testimony that you would not favor continuation of controls whereby the Government could say you cannot raise that salary, you cannot raise that wage, you cannot raise that price?

Secretary SHULTZ. Our feeling is that the mandatory controls—the ability of the Government to mandate a rollback of wages or prices should be discontinued except for the area of health and except for the area of energy which has been treated in another bill. It is not an issue within the Economic Stabilization Act picture.

Senator TALMADGE. Why would you single out health and energy to the exclusion of everything else?

Secretary SHULTZ. Well, energy has already been singled out, as I said, and controls have been extended for petroleum prices in another bill. So it is not a subject that is up for consideration in the Economic Stabilization Act. So, we just lay that aside.

Now, as far as health is concerned, we have a picture there where a tremendous amount of the demand for health services is provided for by Government, basically, on a cost-reimbursable basis. That kind of a system encourages people just to let the costs go up. There is not the built-in control over costs that you have in a regular, private enterprise. Furthermore, our observation is that the Congress seems to want very much to consider the subject of health insurance this year. The President has proposals, quite a few Senators and Congressmen have made proposals of various kinds, and it seems like a subject that will be considered.

Now, we have in the regulations and the administration of the Cost of Living Council a system for cost controls in the health area. That is controversial, as all of these things are but it does seem to have worked and made an impact. That being the case, it seemed to us that it should be held there, while the Congress considers the broader proposition, which will only add to the demand. The Congress can then consider the cost control problem in this broad context, and decide then whether it wants to junk this system or not. But, if the system is allowed to expire, then that reduces in a sense your options. So, for that reason, we felt that we should continue in the health area.

Senator TALMADGE. Thank you, Mr. Secretary, my time has expired.

Senator Hartke?

Senator HARTKE. Mr. Secretary, is this your swan song?

Secretary SHULTZ. Well, I am going to testify again on Thursday before the Foreign Affairs Committee in support of the United States continuing its obligations and efforts toward helping other countries in their economic development. And we think this is a very important time not to back off, as the vote in the House of Representatives last January suggested. And I want to do everything I can to call this to the attention of the Senate, and I hope that the Senate will support continuation of this effort so it is not my swan song. It may not be my last testimony.

Senator HARTKE. I think that most Members of the Senate and most members of this Committee regret your departure from Government service. I just hope that this is not an indication that all good men no longer feel that it is necessary nor indeed proper for them to participate in governmental functions.

Let me ask you, though, this question.

If the economic situation is as critical as we think with sharp increases in inflation, unemployment for whatever cause and if you feel that there must be a stimulus to the economy through deficit spending, why then is it not quite consistent with this economic theory to assert that increasing the purchasing power of the working population of America would make a contribution in expanding the economy, rather than bringing about a slowdown?

Secretary SHULTZ. Well, the question is how much to do, what is the right balance of contribution. And the President put together his notion of the real right balance at the time the budget was submitted. And so far as we have been able to see, in following developments closely, what has happened is not that different from what we thought would happen. In some respects it is more positive, so far as real growth is concerned, and in some respects less, but not that different. And, so, it does not seem that this is a time to alter that balance of judgment.

Senator HARTKE. The fact of it is that in 1973 the actual purchasing power of the workers of America digressed 1½ percent; is that not true?

Secretary SHULTZ. Well, you can divide up the population and find pieces of it that had declines in real income and pieces of it that had increases in real income. On the average, if you take real per capita income, that rose. Now, some parts declined.

Senator HARTKE. But the average worker——

Secretary SHULTZ. The production worker's real income declined and the income of the farmer skyrocketed.

Senator HARTKE. The income of the farmer increased but the industrial worker in America had an actual decrease in his purchasing power last year. Now, what is the background of tax revenue in this area? Corporations paid what? Roughly, $35 billion in taxes last year out of the total?

Secretary SHULTZ. Well, perhaps you are referring to fiscal 1973?

Senator HARTKE. Yes. About how much, about $35 billion?

Secretary SHULTZ. $36 billion.

Senator HARTKE. And personal income taxes contributed roughly then about $190 billion?

Secretary SHULTZ. For that particular year, the past fiscal year, 1973, $103 billion.

Senator HARTKE. $103 billion?

Secretary SHULTZ. Yes. In fiscal 1973 individual income taxes yielded $103.2 billion. Corporation income taxes were $36.2 billion.

Senator HARTKE. The heaviest tax burden then falls on the individuals who are paying more than their fair share of the taxes, as well as paying for the education of their children, paying for the grocery bill on Friday night. They had a $600 personal exemption after World War II. If you gave them the equivalent of that same deduction today, you would have to give them a $1,164 exemption. Why, then, can you not adopt a policy we intend to advocate again, which I have advocated for a number of years, of $1,000 exemption which would provide for a broad segment of America to have an opportunity to go ahead and pay his own way, instead of forcing his back to the wall? This is not a welfare payment. This is for the man who works for a living. He is not going to get a handout. It is not anything special. He is going to pay his taxes, he gets his pay check, he educates his children and he pays the grocery bill. Why should we not at this time go ahead and provide for him this needed relief instead of continuing our policy of subsidizing foreign oil companies and subsidizing big income groups with special tax privileges. Why does the middle American have to continue to be sacrificed for all of these other policies?

Secretary SHULTZ. We could, Senator. It would be great to just repeal all of the taxes.

Senator HARTKE. No; I am not talking about repealing all of the taxes.

Secretary SHULTZ. And cut the budget, and I am for that. I am one of those who think the Government is too big and gets into too much. And on the whole, if the proposition here is "Let us have a big tax cut because that will force Government to contract," I am for that. But I do not get the sense that that is what this is about. And somehow or other, at the same time, if we are going to spend all of this money, we have to find it somewhere.

Senator HARTKE. That is right, and there is a place to find it.

Secretary SHULTZ. And that is something we have to face up to.

Senator HARTKE. Mr. Secretary, there is a place to find it. There are a lot of people, you know, just absolutely living off the fat of the land, and living it up, and you think that is fine while the rest of the people are suffering. There is the real threat of a taxpayers' revolt. When taxpayers see the big oil companies and these wealthy people not paying any taxes, they get very angry. They are struggling just to make ends meet. Ultimately, something is going to give. You say that it would be nice to lower everybody's taxes. I agree with you. But people should have to pay only their fair share. Why is it that the big oil companies like Exxon, Mobil, and the rest of them, pay the equivalent Federal income tax of less than 5 percent?

Secretary SHULTZ. Well, there are some inequities in the tax system that we feel, anyway, should and could be corrected, and that with all of the talk about tax reform, there has not been anything done. And now the President put forward, I believe, a very strong set of proposals for tax reform; and also a subject, I think, of great importance and significance to the American taxpayer are proposals for simplification of the forms, so people can fill out their own income tax forms. It was a very interesting set of proposals. Those were put forward last April 30, almost 1 year ago, and they are good proposals. We have had no action.

We have also put forward proposals on various aspects of petroleum and the taxation of foreign source income. Those proposals are being discussed and worked over along with many others in the Ways and Means Committee today. Mr. Hickman, who might otherwise be with me, is there. So there are proposals being looked at, and presumably they will come eventually to this committee.

But one of my points in my testimony is really in a sense borne out by your comments. That is, the idea seems to be a simple tax cut of some kind by increasing exemptions or credits or some device like that. And you are telling me, in effect, well, this is part of the examination that should be taken of the tax system as a whole, and its inequities and problems and what not, and I think that is what will happen, and I submit to you that is a complex, controversial, difficult subject, and it is going to take a long time.

~~Senator~~ HARTKE. The taxpayer is having difficulty making ends meet now. He is absolutely threatened, not alone with the big tax burden, but with unemployment and soaring inflation on top of it.

It appears that there has been a late conversion in the administration against the oil companies on foreign tax sources. You now want to correct a very sorry problem in our tax structure. I am referring to the recent Ways and Means Committee suggestions on reform of the foreign taxes. You opposed these measures in the trade bill.

Secretary SHULTZ. No, no, just a minute.

Senator HARTKE. You did not oppose the reform of the foreign tax credit in the trade bill?

Secretary SHULTZ. There are proposals for treatment of foreign source income in the administration's tax proposals, and they were available to the Ways and Means Committee at the time the trade bill was considered.

Senator HARTKE. In other words, you are in favor now of changing the foreign tax credit?

Secretary SHULTZ. Well, we have made our proposals on various aspects of the treatment of foreign source income.

Senator HARTKE. That will close, if you close the loophole and give them——

Secretary SHULTZ. But we are not in favor of ending the credit.

Senator HARTKE. You are not even in favor of shifting it to a deduction?

Secretary SHULTZ. We think that would be a real tragedy.

Senator HARTKE. I understand you are not even in favor of giving the multinationals the same treatment that domestic industry has. In other words, the domestic enterprise pays the equivalent rate of 48 percent, while the rest of these people are escaping their fair share of taxation to the tune of about $6 billion. Now, that is a loophole.

Secretary SHULTZ. We do not believe that is true, and we have testified on that. And I would like the opportunity to testify here and bring that material to you.

Senator HARTKE. I would love for you to come back. I said I hate to see you leave the Government.

Secretary SHULTZ. Well, I will let my successor come back, and my policies and proposals are so sound that I know that he will advocate them, too.

Senator HARTKE. I would rather deal with an intelligent man even if he disagrees with me. I would like to know when we are going to have that type of determination to go ahead and deal with these tax loopholes. High employment and high inflation prompted by tax loopholes continues. The big corporations and the rick get the breaks, and make the poor people suffer the consequences.

Secretary SHULTZ. Senator, you have been making this speech at me for some time.

Senator HARTKE. I know.

Secretary SHULTZ. And you are the people that write the laws. Your party is in control of the Congress. We are for a tax reform. What are you waiting for?

Senator HARTKE. I cannot get enough votes, Mr. Shultz, and you are against us.

Secretary SHULTZ. Maybe you had better look at our proposals. They are sound.

Senator HARTKE. Your lobbying is better than ours. Thank you.

Senator TALMADGE. Senator Bennett?

Senator BENNETT. Thank you, Mr. Chairman. I appreciate the chance to question the Secretary now because I have to leave to attend another meeting shortly.

Mr. Secretary, at what level of income today does a couple with the standard deduction, and two $750 exemptions, first pay tax?

Secretary SHULTZ. $4,300.

Senator BENNETT. At what rate of tax will they pay on that first dollar above $4,300?

Secretary SHULTZ. Fourteen percent.

Senator BENNETT. So, by raising the exemption $100, if their incomes goes up $200, they would get $28 back. They would have a tax benefit of $28, if this bill were to become law, is that right?

Secretary SHULTZ. This is a couple that you defined, who had an income of $4,300, and then their income became $4,500?

Senator BENNETT. That is correct. All they are going to get back is $28.

Secretary SHULTZ. Right.

Senator BENNETT. So, we are talking about helping poor people who need tax relief. We are going to give them $28 a year at a cost to the Federal Government of how much?

Secretary SHULTZ. Well, our estimate is about $3.6 billion, as the chairman mentioned.

Senator BENNETT. OK. Now, look at me. Mrs. Bennett and I are both past 65 so we are entitled to four exemptions and our income is in the 50 percent bracket. How much will our Federal income taxes be reduced if we pass this proposed increase? We will save $200, will we not?

Secretary SHULTZ. I have my figurer-outer here. I do not move without him. He confirms that you are right.

Senator BENNETT. Yes; so, this bill is aimed to benefit the man with the higher income. It would not give any benefit to a family of four with income of less than $4,300. And if that same family has an income $200 higher than that, the only benefit they will get is $28, but a family with the higher income, who is able to survive past age 65, can get $200 benefit out of it. This is offered to us as the best way to help the people at the low end of the scale who need assistance.

Now, let us assume that the average worker, industrial, worker, makes about $10,000. How much benefit would he get out of this bill?

Secretary SHULTZ. Well, we will assume a two-child couple.

Senator BENNETT. Well, just for comparison because we have been talking only about a couple. Let us just assume a couple with no children.

Secretary SHULTZ. Well, we were assuming two children in the previous example, so if we keep it consistent then, a couple with two children and one job amounting to $10.000 of income, what is the tax?

Senator BENNETT. While he is looking for that, will your other assistant figure out how much tax savings there is if there is only the couple?

Secretary SHULTZ. Well, we will have the same man do the figuring. He is the expert at that.

Well, Senator, if I may, let me suggest that there are all sorts of ways that people are proposing for dealing with this question. If you want to make a cut and you want to make it go exclusively or predominately to low-income people, then you can do that not by having a credit, or a deduction, but by eliminating the social security payroll tax for people whose income is below some level, or things of that kind which are being proposed. Of course, those things go again to the heart of the nature of the tax system.

Senator BENNETT. That is right.

Secretary SHULTZ. And raise broad questions which are legitimate ones to debate, but they pose very broad issues for us, I think.

Senator BENNETT. Well, it is hard for me to see that a couple with an income of $4,300, or let us say, $4,500, to bring them up to a taxable level, is going to have its financial status substantially changed. That couple is going to move out of the cloud of recession into the sunshine of prosperity by a bill that would give them $28 a year, $2.25 a month? That, I think, is one of the weaknesses of trying to solve this problem by continuously raising the personal exemption because it has more value to the man at the top of the scale than it does to the man at the bottom.

Now, you can argue that $200 to the rich man is not as much as $28 to the poor man, but to neither of them does it represent a substantial benefit, just a tremendous cost to the government.

Secretary SHULTZ. In the case of $10,000 income for a couple with two children, the tax drops from $905 to $829, or by $76, it says here.

Senator MONDALE. Are you going to take him with you?

Secretary SHULTZ. I am afraid I cannot afford it.

Senator BENNETT. How is my high school arithmetic? Is that three-quarters of 1 percent, $76 from $10,000?

Secretary SHULTZ. Yes.

Senator BENNETT. An increase of three-quarters of 1 percent, and yet at a total cost to the Federal Government of $3.5 billion. To me, that just does not make economic sense.

Thank you very much, Mr. Chairman.

Senator TALMADGE. Thank you.

Senator Byrd?

Senator HARRY F. BYRD, JR. Thank you, Mr. Chairman.

Mr. Secretary, I support your position as enumerated in your statement today. As I understand your position, you feel it would be irresponsible to reduce taxes at a time that we have these heavy government deficits?

Secretary SHULTZ. Well, we believe that the fiscal stance of the government is appropriate for the economic circumstances that we have, and we feel that if you reduce taxes now, and the spending keeps rising, that the deficit problem will just gradually get totally out of control. We will just have to keep facing up to it.

Senator HARRY F. BYRD, JR. And further increase the inflation that we already have?

Secretary SHULTZ. Yes, sir.

Senator HARRY F. BYRD, Jr. And you took the annual rate of inflation at roughly 10 percent at the moment?

Secretary SHULTZ. Well, right in the last 3 months it has been running at about that level, which is a pretty shocking thing.

Senator HARRY F. BYRD, Jr. But, you feel that it is likely to go down to 5 percent towards the latter part of the year, do you?

Secretary SHULTZ. We think that if we maintain our sense of balance here and do not do dumb things, we will see a decline in the rate of inflation, and that by the end of the year it may very well be in the 5 percent neighborhood.

I personally expect to see some of these raw material and commodity price increases, which have been so spectacular and which have been the basic ingredient causing inflation, not only here but throughout the world, crack. And we have seen some signs of it. For example, we were told that by this time the price of wheat would be $10 in Kansas City and, therefore, we should put on export controls. And we have resisted that and we have worked at that problem, and the price was below $5 yesterday when it closed. So, some of the scary things that people tell you do not always turn out to be true. They can scare you into doing something, however, that you would regret forever after.

Senator HARRY F. BYRD, Jr. But, we do have, as I recall you said a moment ago, a shockingly high inflation rate at the moment?

Secretary SHULTZ. We certainly do.

Senator HARRY F. BYRD, Jr. And I certainly agree with your statement, too, when you say Government is too big and Government gets into too much. I think that is one of our problems right now.

Mr. Secretary, you mentioned $23 billion being refunded. Is that for the current fiscal year?

Secretary SHULTZ. That is for taxes due for the calendar year 1973 and the returns for which we are now in the midst of processing. And by the time we get through processing, then, the IRS estimates that the amount of refunds will total between $23 billion and $24 billion.

Senator HARRY F. BYRD, Jr. So the $118 billion of personal income taxes you estimate taken by the Treasury during this current fiscal year, that is after the refund of the $23 billion?

Secretary SHULTZ. Oh, yes sir. This is the netting out of all these things. It is the net take.

Senator HARRY F. BYRD, Jr. And then you estimate for 1975 a personal income tax collection of $129 billion?

Secretary SHULTZ. Yes, sir.

Senator HARRY F. BYRD, Jr. Now, how much did you take off of that for refunds, that you estimate for refunds?

Secretary SHULTZ. Well, this took a jump when there was a change in the withholding tables. But that it tends to gradually increase as income goes up. And that has been a historic thing—so it went along like this, and then it took a big jump, and then it would along rising slowly again. So I would expect it would be a billion or so higher, unless the committee takes the action which we suggested, in which case the amount of overwithholding would decline in one step just as it increased in one step.

Senator HARRY F. BYRD, Jr. But in order to arrive at the figure of $129 billion, you have to assume a certain figure as to refunds?

Secretary SHULTZ. Well, in the end it does not make any difference. That is, a person has a tax liability given by the law, whatever that is, and then the question is what is the pattern through the year in which that money is paid. And the proposal that we have before you would simply alter the pattern, and less of it would be collected as you go along. Then there would be a lesser refund at the end of the year.

Senator HARRY F. BYRD, Jr. What I was trying to understand, though, is to arrive at your $129 billion figure, you have to make certain assumptions as to refunds?

Secretary SHULTZ. Well, you have to make an assumption about the current collections and the refunds.

Senator HARRY F. BYRD, Jr. Well, you made an assumption of $23 billion for this current year.

Secretary SHULTZ. Yes, sir.

Senator HARRY F. BYRD, Jr. Now, what assumption did you make for the upcoming year?

Secretary SHULTZ. A larger number. Mr. Fiedler tells me it was $27 billion. I think it is about $24 billion for this year.

Senator HARRY F. BYRD, Jr. Well, your estimate of income tax collections for both personal and corporate income for the new fiscal year, as compared to the present is up about 10 percent?

Secretary SHULTZ. Right.

Senator HARRY F. BYRD, Jr. And that is about what? 1974 will be above 1973, I guess it is?

Secretary SHULTZ. It is up a little bit more than that because the economy was rising more strongly.

Senator HARRY F. BYRD, Jr. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Senator TALMADGE. Senator Curtis?

Senator CURTIS. Mr. Secretary, I, too, want the record to show I am sorry you are departing.

Secretary SHULTZ. Thank you, Senator.

Senator CURTIS. From your present position. We have found you fair, considerate, and helpful in all of these matters that have come before this committee or the Congress generally.

I have a question here that I would like to have answered for the record, because I want to know the answer to certain problems relating to the direction we have gone in the last 10 years in taxing personal income. But, it would be time consuming to have all of the answers spelled out right now. Here is my hypothetical question. It relates to a family of four. I would like to know the dollar amount of their Federal income tax for the years 1963 through 1973 on certain annual amounts of earned income, with the assumption they have no other income. I think it would be important for the committee to have before it just what has happened in those years, and I am suggesting, or requesting, these figures be put in columns, one for 1963 and one for 1973, by annual earned income levels of $3,000, $4,000, $5,000, $6,000, $7,000, $8,000, $9,000, $10,000, $15,000, $20,000, $25,000, $50,000, and $100,000, for a family of four. Will you suppy that?

Secretary SHULTZ. Yes sir; we will.

[The following table was subsequently supplied by Secretary Shultz:]

INDIVIDUAL INCOME TAX LIABILITY OF A MARRIED COUPLE WITH 2 DEPENDENTS, COMPARISON OF 1963 AND 1973 LAW [1]

| Wage income | 1963 law | | 1973 law | | | |
|---|---|---|---|---|---|---|
| | Taxable income | Tax | Taxable income | Tax | Tax change from 1963 law: Amount | Tax change from 1963 law: Percent |
| $3,000 | $150 | $30 | 0 | 0 | −$30 | −100.0 |
| $4,000 | 1,000 | 200 | 0 | 0 | −200 | −100.0 |
| $5,000 | 1,850 | 370 | $700 | $98 | −272 | −73.5 |
| $6,000 | 2,700 | 540 | 1,700 | 245 | −295 | −54.6 |
| $7,000 | 3,550 | 710 | 2,700 | 402 | −308 | −43.4 |
| $8,000 | 4,400 | 888 | 3,700 | 569 | −319 | −35.9 |
| $9,000 | 5,250 | 1,075 | 4,650 | 744 | −331 | −30.8 |
| $10,000 | 6,100 | 1,262 | 5,500 | 905 | −357 | −28.3 |
| $15,000 | 10,350 | 2,291 | 9,750 | 1,765 | −526 | −23.0 |
| $20,000 | 14,600 | 3,500 | 14,000 | 2,760 | −740 | −21.1 |
| $25,000 | 18,850 | 4,889 | 18,250 | 3,890 | −999 | −20.4 |
| $50,000 | 40,100 | 14,576 | 39,500 | 11,915 | −2,661 | −18.3 |
| $100,000 | 82,600 | 41,274 | 82,000 | 33,060 | −8,214 | −19.9 |

[1] Tax liabilities assume deductible expenses of 15 percent of income are itemized when they exceed the standard deduction.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, Mar. 20, 1974.

Senator CURTIS. For the record. And, Mr. Secretary, I want to commend you on your position this morning. I think you are sound in your approach. I believe it would be very wrong to reduce taxes at this time. I also believe that we can talk ourselves into a recession or a depression, if the public and the press so choose to do it. And you, as head of our Treasury Department, are to be commended for spelling out and pointing out those factors that do point towards renewed economic activity in this country. I do not think that this is imaginary. I have seen the time when the national media undertook to sell the idea that there were people starving in America, and, as a result, the Congress was just flooded with mail and then they go on to something else. And it is possible to break down the confidence of people and so becloud issues that it affects business decisions, it affects personal decisions, it affects the decision of whether or not to buy or build homes, it affects decisions whether or not to make an investment or to make a loan, and many other things. But on your positive position, I want to commend you for it.

Now, in reference to the slowdown coming about that is related to the energy crisis, that has not slowed down the real potential demand for the products of the industries that have been affected, is that not true?

Secretary SHULTZ. No.

Senator CURTIS. The latent or potential demands I am referring to.

Secretary SHULTZ. Well, the crisis has changed rather drastically from 6 or 8 months ago and the effect of those price changes, I think, will have quite an impact on the usage of those products.

Senator CURTIS. You are referring now to automobiles?

Secretary SHULTZ. Well, automobiles are the most visible and the easiest example. And I think we will have an acceleration of trend toward smaller cars, for example. That seems to be pretty evident. But, you have all sorts of other adjustments that take place. For example, the plastics industry makes heavy use of petroleum as a feed stock, so it is an important cost there. On a cost basis there have been all sorts of innovations in that industry that have enabled that material to compete with steel, with aluminum and so on. Now, you changed by a large proportion the cost of the major input to that industry, and its ability to compete on the margin with these other materials will be lessened somewhat. And so, there will be an adjustment, and there are all kinds of things like that that I think are underway.

Senator CURTIS. But take the field of transportation, the need for additional vehicles, the need for additional railroad equipment and rails and so on is tremendous. The total turnaround of our agricultural picture that has taken place in the last year and one-half where we have moved from an economy of surplus and low prices to an economy of full production and adequate prices for the first time in a decade, but the transportation facilities needed to move that is something that is going to call for a great amount of additional production, is that not correct?

Secretary SHULTZ. Yes, sir. And I think the net impact of the energy crisis that we have had undoubtedly will be to stimulate the investment in many areas that are related to it, and you have just given an example, a rather subtle example of that, the type of thing people do not normally think of.

Senator CURTIS. Our Secretary of Agriculture points out that there is 7 cents worth of wheat in a loaf of bread which, of course, is not a high price. It is not to high at all. But, part of the crisis is not a shortage of wheat in this country, but there are grain elevators in my State that are still trying to ship out grain that was called by the Government in August 1972. And the shortage of railroad cars is so great that it will take years and years to ship out what has already been produced. So, my point is, that this growth of economy that is generated by agriculture is going to call for a great amount of increased industrial activity. Do you agree with that?

Secretary SHULTZ. Yes, I certainly do in certain sectors, and transportation is one that is undergoing a great shift.

Senator CURTIS. Now, so far, the Congress has not done anything to increase our supply of petroleum by a single gallon in spite of the shortage. I hope they get around to that some time.

Secretary SHULTZ. Well, I guess I would have to dispute you on that, Senator. I think the Congress did a good turn by sustaining the President's veto of the Emergency Energy Act.

Senator CURTIS. That prevented a further shortage of our own petroleum supplies in this country. But, right now, I have been told of an area in my State that is anxious and waiting to undertake some petroleum production and they cannot get pipe, it just is not available. Now, my point is, in this discussion, it is not to settle all of the petroleum problems, but I would like to point out that the latent and potential demand for goods is here, which augurs a growing economy rather than a recession, do you agree with that?

Secretary SHULTZ. Yes, sir, I do.

Senator CURTIS. Thank you.

Senator TALMADGE. Senator Mondale?

Senator MONDALE. Thank you, Mr. Chairman.

As you may know, I have introduced legislation to permit taxpayers to take a $200 per dependent tax credit in the alternative to deductions. They could take one or the other, whichever benefits them the most. Our calculations indicate that most persons under $20,000 a year would be better with the credit than with the deduction.

Our estimate is that it would cost the Treasury about $6 billion. This is my theory and reasoning, and I will just lay it out and then you can respond to it.

First of all, the proposed budget is restrictive on a full employment basis. Second, it is my belief that the economy is sluggish and is declining and that we might well be in a recession. Third, that inflation is perhaps the worst it has been since World War II, and it is literally torturing millions of Americans in the average income brackets. Next that a $200 credit would bring assistance to those who are hurting the most from inflation. And next, that they are the very ones who would spend the money rather than saving it so that it would provide stimulation. And finally, that it would not contribute to inflation because our problem is basically cost-push inflation rather than excess demand-pull inflation. That is my theory.

Now you can agree with it if you want and we will pass the bill, or disagree with it. But, I would like to know what you think.

Secretary SHULTZ. Well, I think, as always, your reasoning is clear, and you have laid it out in a logical and clear way. We have many areas in the economy that have a shortage where, in a sense, you could say there is a demand for that product that is tending to pull up those prices, and that in the end I would say our ability to control inflation is going to stem from our ability to control demand. That is going to be the result of the interaction of the budget and monetary policy. And in the end, that is what is going to determine our ability to lick this thing.

So, I recognize the point that our inflation—coming from the increased costs of internationally traded materials—gives us something that has a greater independence of our domestic activities than we normally have thought of. And as I have said on other occasions, it seems to me this is the big lesson of 1973, this interconnection.

Nevertheless, the way in which we have to work at it is to do our job in terms of controlling the demand here, and expect that others are going to do something similar abroad. And I think that particularly the Germans are making heroic efforts in this regard, and that the pressures we have had will be declining. But, I think in the end it is always demand that you have to look at. So, therefore, I have felt and I agree with the President that we should not cut taxes at this time.

Now, I think, the credit method as distinct from the deduction method is a different topic in a way and it seems to me—and other things have been suggested, such as the elimination of social security taxes for people under a certain income level, and things of that kind—that these tend to be very expensive things to do in terms of receipts. They tend to make, in effect, conceptual changes in the nature of our tax system, and seem to be subjects which ought to get a thorough airing in the context of a broad examination of the tax system.

Senator MONDALE. The other day, Defense Secretary Schlesinger testifying before one of the committees in the Congress, said that the military budget had been expanded and increased as a stimulus for the economy by maybe $1 or $2 billion. Is that correct?

Secretary SHULTZ. The military budget was increased, and I understand for reasons having to do with defense needs. And my belief is that we should never do anything with the defense budget for reasons other than that.

Now, there seems to be a question, however, of what you might do with timing of outlays that you think are desirable in their own right. It was thought appropriate to speed up the timing of some of the military purchases as part of the basic budget stance that is already before you in the interest of providing an element of purchasing at a time when purchasing seems to be declining somewhat.

Senator MONDALE. Yesterday, the Arab or the OPEC nations announced at least a temporary cessation of the embargo. What can we anticipate? Can we anticipate the end of shortages? If not, what can we anticipate by way of supply?

Second, what might we anticipate by way of price? Do you see a reduction of price ahead? How do you view this announcement yesterday by the OPEC countries?

Secretary SHULTZ. Well, from the standpoint of our economic activity, it seems to me it must be a bullish thing in the sense that we have had a strategy that I believe everyone has agreed on, Congress and the President and everyone, that we should try to manage the oil shortage in a way so as to protect jobs, and to see that the feedstocks for basic industries were maintained and so on, and that has been done, and that has worked. Nevertheless, industries that have gotten strong allocations have not been the extra allocation that they might want if they were going to expand more rapidly, and that, presumably, can now be done since we can expect a greater flow of imports. So, I think on the whole this will be a bullish thing. It will be possible to take away some of the uncertainty that potential carbuyers and homebuyers in suburban areas may have had. So, I think it will tend to have that effect.

Now, as far as the price is concerned, it has been my belief for quite some time that the international prices, were higher than could be sustained and would come down. And we started a very strong discussion of that at the meeting of the Finance Ministers in Rome about a month and a half ago. Since that time, the prices have been coming down. Of course, as you know, there are all kinds of prices. There are auction prices, posted prices, participation oil prices, and so forth. But the tendency has been for a decline, and it is my own personal expectation that we will see a further decline.

Senator MONDALE. Thank you, Mr. Chairman.

Senator TALMADGE. Senator Bentsen?

Senator BENTSEN. Thank you very much, Mr. Chairman.

Mr. Secretary, would you define "necessary" for me?

Secretary SHULTZ. Well, I have to be careful of that. People have accused me of joking about that definition, and I do not mean to do that. But——

Senator BENTSEN. Well, I want your latest definition.

Secretary SHULTZ. Well, the only definition that we are talking about is the one used by the National Bureau of Economic Research, since they are the official classifiers of economic activity. But, there seem to be at least three dimensions that one needs to look at. The first is the duration of a decline in real activity.

Senator BENTSEN. How many quarters would you say?

Secretary SHULTZ. Sir?

Senator BENTSEN. How many quarters would you use?

Secretary SHULTZ. Well, the definitions have not been all that specific. Two quarters is often thought of, but that is not standard. People have talked about 8 consecutive months of decline in payroll and employment, for example, or something like that and there are all sorts of definitions of that kind. But, you can say two quarters, if you want. That tends to dominate peoples' thinking who feel that is the one and only thing to look at.

The second dimension is depth. That is, if you had two quarters of a very, very slight decline, it would be different presumably from a decline that was quite substantial.

Senator BENTSEN. Decline in what, Mr. Secretary?

Secretary SHULTZ. In real economic activity. I think we are always talking in real terms, not money terms here.

Senator BENTSEN. Right.

Secretary SHULTZ. And the third thing that people talk about is the prevasiveness of the decline; that is, if it is highly concentrated in a certain portion of the economy, it must be a different phenomenon than a decline that is spread all over the economy and seems to infect most everything.

Senator BENTSEN. What would you say about unemployment?

Secretary SHULTZ. Well, what one would say about the unemployment figures, would tend to parallel what you would say about economic activity generally—having to do with continuation of increase, pervasiveness of it, and so on.

Senator BENTSEN. Mr. Secretary, you have dealt with your terms very carefully and you have not given me a great deal of specificity. What I am trying to find out, of course, is if we are in a recession and you tell me what you think the real GNP will be this year, and what you think unemployment will reach this year, and what you think will be the consumer demand this year.

Secretary SHULTZ. Well, we have put forward in the budget and the "Economic Report" our estimates on these things. And, as I said earlier, while some things are a little different than we thought, some in the plus and some in the minus direction, we do not see any reason to change the basic dimensions of that.

Now, in terms of unemployment that you asked about, we would see it rising, but averaging somewhere in the neighborhood of, say, of 5.7 percent for the year and declining toward the end of the year.

Senator BENTSEN. Well, Mr. Secretary——

Secretary SHULTZ. Because we think economic activity would be pretty strong by the end of the year.

Senator BENTSEN. I have seen figures that talk about no real growth over the year, and unemployment may reach as high as 6 percent and that we are going to see weak consumer demand, and those things add up to me to be at least a minirecession. Certainly to the wives and children of hundreds of thousands of people who have gone on unemployment, a 600,000 increase since October, it is a recession. And I am concerned when you talk about fiscal responsibility and monetary responsibility. I go along with those that say that most of the inflation for 1973 and 1974 was beyond monetary and fiscal control. Sixty percent of our inflation in 1973, has been attributable to the cost of food and fuel. I do not believe that monetary and fiscal policies would have had that much influence on the price of food and fuel and that is what concerns me about 1974. I am advised that if we have a 1-percent increase in unemployment, that that means $12 billion to $13 billion loss in tax revenues to the Treasury and an increase in costs of $2 to $3 billion a year in the costs of unemployment costs. Then that, too, is a question of fiscal responsibility, trying to cut our deficit in the budget. The higher the increase in unemployment the more it contributes, it seems to me, to a deficit, and then when we talk about those things that you might do in the way of government spending, there is always that delayed reaction there, ~~and it~~ would seem to me you would get a much quicker reaction through a moderate tax cut made effective ~~through the~~ withholding schedule. And there is a stimulus there that might curb the increase in unemployment, might really be fiscally responsible, and would be something that would contribute to a better utilization of the economics of our country.

Now, Mr. Secretary, I would like to ask you for your thoughts on this question of social security taxes. We have extended it far beyond the original concept. We have covered far more people than originally was anticipated, and we have used it to a degree for social services beyond just what was expected in the way of retirement. It is time for perhaps a conceptual change in that we would be talking about part of these funds coming from general revenues. I know when it was originally proposed that that was one of the proposals, that part of the tax come from general revenues. Have you given consideration to that?

Secretary SHULTZ. Yes, sir, I have thought about that a good deal, and I think we have had a conceptual change in the social security system of quite sweeping magnitude over the past 4 or 5 years. The belief that people had that we had a system where what you got out depended on what you put in—a kind of annuity like sense—has been put to the side. And we now have a current cost financing concept, but the terms as proposed by the advisory committee to the Secretary of HEW and to the Congress have already been violated in terms of the relationship of the trust fund to the next year's outlay. And so we have changed that system. It has already been done, but we have not perhaps thought about it as carefully as we should. And I think we had better think about it and see where we are going, because we are putting into place liabilities and expectations of gigantic proportions for the future, and we have to think carefully about how we are going to finance those. It comes down in the end, it seems to me, in terms of the fiscal aspects of it anyway, to the proposition that you have got certain numbers of people who are working, producing, so to speak, and you have got certain numbers of other people, young people, old people, handicapped people, and so forth, who are not working, and how big a burden are those who are working willing to carry. And you must see this as social security taxes are increased, and those who are working say, "Well, how high is this going to go?" People are beginning to look at that interplay, which I think we have to examine and see how to handle it.

Senator BENTSEN. Well, let us look at that point now. For example, take a family of four that makes $10,000 a year, and last year they paid about $900 in Federal income taxes and about $1,200 in payroll taxes, so the payroll tax has increased in the last 10 years by approximately 300 percent. But is it not also conceivable from the standpoint of the same question that we are raising, that more of those services paid by the payroll tax should be moved over to general revenue and thus paid out of the income tax, a more progressive tax, so that you would not have so much of a burden on people with low incomes?

Secretary SHULTZ. Well, I think that is a question that deserves examination, and perhaps we have moved ourselves to the point where we are saying that this notion of separating social security payments and the trust funds and so forth and everything else is increasingly artificial, and we ought to just abandon it and say, "Well, we have got a lot of spending programs for the Government and obligations, and we have got a tax system, including payroll taxes, and now let us look at the tax system in a comprehensive way, not considering it as dedicated to a certain end, but rather just part of the general revenue collection system that we have." And that is a very revolutionary approach. I think it is a very deep problem, and it deserves examination along with other aspects of tax reform that we have talked about.

I would say, as a personal matter, being an economist, that I have been part of the economists' cabal on trying to make everybody see clearly that the social security system on a trust fund and annuity basis, just never was there. Nevertheless, I think that has been a service to the country in that it has been a very good myth that you get what you pay for in this system and its contributory aspect, I think, has been good for people. And also the aspect of feeling it is not welfare. It is an entitlement based on what I contributed in my earning years. That is a good feeling for people to have and it seems to me somehow or other as we discuss, particularly in a committee like this, properly dedicated to financial considerations, and think about some of these other factors. And I think it would be too bad to take away from recipients of social security the feeling that they are getting something they earned as distinct from a feel of, well, when you get to be a certain age the Government gives you this handout, you can except it, but it is not related to your own input during your earning years.

Senator BENTSEN. Mr. Chairman, I have a statement I would like to insert in the record.

Senator TALMADGE. Without objection, the statement will be inserted in full at this point.

[The statement of Senator Bentsen follows:]

### CONSUMER TAX RELIEF

As all Americans realize, the number of unemployed in our Nation has increased dramatically over the past several months—in fact, by as many as 600,000 since October. Just last Friday the Federal Reserve Board reported that our Nation's industrial production declined in February for the third consecutive month. The increased number of jobless represents real economic hardships for the families involved and prompt action by Congress is required to reverse this trend and protect the jobs of the American worker. A moderate across-the-board tax cut for all consumers would help prevent further rises in unemployment, reverse the current economic slowdown and, in addition, provide a partial adjustment for the inflation which has eaten into the paychecks of the American worker.

Despite the President's unequivocal statements that there will be "no recession" in the United States in 1974, economic indicators clearly show rising unemployment, negative economic growth and declining consumer demand. This makes it unmistakably clear that we are already in the midst of a real economic slowdown. As the wives and children of hundreds of thousands of workers who have recently been laid off could easily verify, the President's promise may be more an indication of wishful thinking than an objective analysis of the facts—*unless* we take appropriate action.

The economy now needs a mild tax stimulus—perhaps in the range of $3 to $4 billion. This can easily be achieved by means of an across-the-board tax cut for all consumers, either by increasing the personal exemption or adopting a tax credit. But whichever alternative Congress selects, prompt action is required. By making the tax cut effective through the withholding schedule, the stimulus would be felt immediately, through increased weekly take home pay.

A moderate consumer tax cut is needed now for several reasons.

First, we must keep the current economic downturn from materializing into a recession and help prevent a further rise in unemployment. The decline in housing starts and the slump in auto sales, to give just two examples, illustrate a general decline in consumer demand. Reduction of demand in major sectors of the economy such as the construction and automobile industry have a "multiplier effect" on the rest of the economy. The thousands of men laid off in the construction and auto industries consume less which, in turn, hurts the businesses that supply consumer goods to all these workers. A gap between actual and potential output has resulted for the entire economy. A moderate consumer tax cut will boost consumer spending, moving us closer to our potential growth path and thereby increasing the number of jobs.

Second, a tax cut is justified as an inflation adjustment. Needless to say, every housewife is keenly aware that rising food and gasoline prices are making it more and more difficult to make ends meet. It is estimated that rising food prices reduced consumer purchasing power by $15 billion in 1973. In addition, increased fuel prices are now taking money out of the economy and out of consumer's pockets at an estimated rate of as much as $20 billion a year. The extra money that consumers will have to spend on food and fuel is not available for spending on other consumer items, ranging from movie tickets to television sets. A moderate tax cut will provide some relief against past increases in the cost of living.

Third, a tax cut can serve as an anti-inflation weapon. This year will be an important one in the fight against inflation because major collective bargaining negotiations will take place. By granting a tax reduction now we will provide some relief against the rising cost of living for working men and women and this can ease the pressure for excessive wage demands. In effect, we will redress workers' cost-of-living grievances in part through tax relief rather than wage escalation.

Although some argue that we are not experiencing a general economic slow down and decline in consumer demand, major indicators unmistakably point in the opposite direction. Let's look at the statistics.

Industrial production declined in February for the third consecutive month.

Unemployment has risen from 4.6% of the civilian work force in October to 5.2% in February. This represents an increase in the number of unemployed persons of 600,000 since October. The Administration admits that it expects unemployment to average 5.7 percent in 1974. This prediction implies unemployment rates near or above 6 percent at sometime during the year.

Initial claims for unemployment insurance in January were more than 30% higher than in January of 1973.

In January, real spendable earnings of non-farm workers, after taxes, were down 4% from a year earlier.

Sales of U.S.-made cars in February went down 27% from February of 1973.

Housing starts in the first seven months of 1973 averaged 2.3 million but then fell sharply and have averaged only 1.6 million since November.

For over a year retail sales other than autos have shown no increase in real terms.

Economic forecasters at the University of Pennsylvania predict a three percent negative growth rate for the first half of 1974.

The Chase Econometrics model of the economy predicts that consumer demand will continue to be weak through 1974 and well into 1975.

The Data Resources model predicts an actual decline of about 2% in retail sales, after adjusting for inflation, in the first quarter of 1974.

Contrary to the views of Administration spokesmen, a moderate and responsible tax cut now will not be inflationary. Let's look at the facts.

First, the economic outlook demonstrates that the major problem will be a real shortage of demand, not a shortage of supply. A recovery of economic growth will have to include increased consumer spending and there are no signs that this recovery will take place in 1974 without a fiscal stimulus.

Second, the inflation we experienced in 1973, which unfortunately continues in 1974, has a life of its own, so to speak. Increase in food and fuel prices, which accounted for more than 60% of the consumer price inflation during 1973, were not the result of fiscal and monetary policies, and if prices continue to rise in 1974 this will hapen regardless of whether we have a tax cut. As Walter Heller, Chairman of the Council of Economic Advisers under Presidents Kennedy and Johnson, has said: "Inflation in 1974 has a life of its own, nourished not by excess demand but mainly by a variety of cost factors beyond the reach of fiscal and monetary management. The great bulk of the stimulus of a prompt tax cut would therefore express itself in higher output, jobs, and income, not in higher prices."

Obviously we cannot overlook the serious impact that inflation has on the budget of the average American family. We must attempt to check inflation by the most appropriate and workable means—expanding supplies of agricultural products and vital raw materials and cooperating with management and labor to insure that the momentum of inflation does not outlive its real causes. However, it would be tragic, indeed, if we failed to enact a moderate tax cut which would increase jobs because of a misunderstanding of the nature of inflation.

While some argue that we can rely on Government spending powers to stimulate the economy, I believe that spending powers, which may be tardily exercised and which may have a substantial time lag between enactment and economic reaction, would prove more useful as a treatment of an on-going recession than an effective means of preventing one.

A moderate across-the-board tax cut for all consumers now would be an insurance policy against a prolonged and sharp slide in unemployment and output, and it would help offset the impact of higher grocery and fuel costs on the American family.

The increase of 600,000 unemployed workers since last October is far, far too high. Our Nation simply cannot afford inaction in the face of growing unemployment and Congress must now enact a moderate across-the-board consumer tax cut.

Senator BENTSEN. Thank you.

Senator TALMADGE. Mr. Secretary, if I understand it, roughly 61 million tax returns were filed last year. Any proposal to increase the personal exemption, or to provide a tax credit, would mean that persons now paying taxes would no longer have to pay taxes, generally speaking. Do you feel that the present tax base is adequate, or do you feel too few or too many persons now pay taxes?

Secretary SHULTZ. Well, I will just express a personal opinion on that, and it is that it is a good thing for as many people as possible to pay some tax, to feel that they are part of the system, and to have some contact with it. I know that we have over the past 4 or 5 years had a number of changes in the tax system that take people off the tax rolls, and on the whole everyone has bragged about that. I have my fingers crossed personally.

Senator TALMADGE. Mr. Secretary, our real inflationary spiral started, as you know, in 1965. We have been on an inflationary binge now for about 9 years. We have had phase I, we have had phase II, we have had phase III, and now phase IV. Do you ever think we can stop inflation until we bring our Federal budget into balance?

Secretary SHULTZ. I think that the only way to stop inflation is through a responsible budget policy and responsible monetary policy, and it is not going to be done by controls.

Senator TALMADGE. I agree with that. Now, can we continue to act as banker and Santa Claus for the rest of the world and ever stop inflation?

Secretary SHULTZ. We must look at our budget as a whole and consider our obligations and our opportunities everywhere, including in terms of our proper role in the world. And I think there is a proper role in the world for the United States, and that within the framework of our overall budget, we should be able to find the money to support certain activities that can be defined as in our interest. And I believe that we can point to quite a number of them.

Senator TALMADGE. Is it not time that we put an American desk in the American State Department and consider our own interests first?

Secretary SHULTZ. Well, I am sure that the people from the State Department, were they here, would say that that presently was the case. I certainly think that Henry Kissinger, as the foremost person, is doing a fine job of representing America.

Senator TALMADGE. In our foreign aid program, including the interest we have paid on borrowed money, that is representative of almost half of our national debt.

Secretary SHULTZ. Well, the amount of foreign aid that we have given over the period since World War II is a very large amount. I do not have the precise number here. But, I think it is not half of our total national debt.

Senator TALMADGE. It approaches it. I do not think it is quite half. My recollection is, the amount including interest on money we borrowed before we could give it away is something like $215 billion. Can we continue that, when our own dollar is devaluating daily, and they have greater gold reserves in Western Europe than we have, more manpower than we have, a favorable balance of trade with us, less unemployment than we have? Is it not time to say to the Western Europeans that you have got to be more for your own defense?

Secretary SHULTZ. Well, we have bargained hard in our world forums on this. The idea of having organizations like the World Bank, the Asian Bank, and the Inter-American Bank, has been to set up an institutional arrangement whereby others would also make contributions to the development problems of people in the poorer parts of the world. That has worked, and in our most recent negotiations, which is now before the Congress, the U.S. share of funds contributed to the IDA was reduced from 40 to 33 percent, which we think is an appropriate thing to do, and which we finally got acceptance for. So, I think there has been a recognition of what you say.

Senator TALMADGE. The one thing that concerns me greatly about previous statistics, of course, is this inflationary spiral is not only for the United States, but most all of the leading industrialized nations of the world. And a year ago our inflation was less than the rest of the world by and large, and now it is greater. Is that an accurate statement?

Secretary SHULTZ. No, sir. Well, it is accurate that it was less a year ago. I think right now it is higher, higher than the German inflation. It is about the same as many other countries and there are some—Japan is an outstanding example—where it is considerably higher.

Senator TALMADGE. The latest figures I saw were not official, but they were in one of the news magazines that had some reputation for reliability, indicated that the inflationary spiral in Japan was the only one exceeding our own at the present time. Is that right?

Secretary SHULTZ. Well, you are referring to an article in the Wall Street Journal, I am sure.

Senator TALMADGE. Either that or U.S. News & World Report. I think it was the Wall Street Journal last week.

Secretary SHULTZ. The way you put these statistics, as always, and the time period chosen can make a big difference. But, I think the really operative generalization is that all of the countries of the world have been having a major problem and continue to with inflation. Now, our problem last year was aggravated to some extent by our efforts to rearrange the competitive structure of the United States with respect to the rest of the world and, in this case, through rearrangements in exchange rates. I am sure that added some to our rate of inflation, as compared with people whose currencies were valued upwards, whereas ours were valued down. We have achieved through this process now a much better competitive position for U.S. goods, as reflected in the turnaround in what has happened to our trade balance. I know your interest in the Canadian auto pact would cause you to be especially interested in the change that we have seen in the past year. The turnaround has been quite significant, and we think we are in a much healthier position now to move forward in the coming year. We would not see the same deterioration this coming year, and, if anything, the reverse in terms of the dollar.

Senator TALMADGE. Thank you, Mr. Secretary, I have no further questions.

Senator Curtis?

Senator CURTIS. Mr. Secretary, you economists should not feel too badly if you cannot define a recession to everybody's satisfaction. I think there is quite a different definition of recession for somebody that is President, and an altogether new set of rules who wants to be President. And I do not think you can ever reconcile it. So, you should not feel too bad about the lack of success in presenting a definition of recession that is satisfactory to everyone.

Secretary SHULTZ. Well, I would go along, Senator Curtis, with a comment that Senator Bentsen made that so far as the individual is concerned, if he or she is unemployed, it is a recession for that person.

Senator CURTIS. That is right.

Secretary SHULTZ. And so our question is, it seems to me, less that are we in something that is technically defined by some experts somewhere as a recession and more with what problems are people out there having and what are we doing about it. And this is why it seems to me so important that Congress enact the President's proposal on unemployment compensation. That is something that can be done. It will help people who need the help, and those proposals have been lying around here for almost a year. And why can't we get some action on them? That is something that is do-able, and it needs precisely that definition of a recession when I am looking for a job, and this is the way you can help me.

Senator CURTIS. A tax cut will not put money in the hands of someone who has become unemployed because of the fuel crisis; is that right?

Secretary SHULTZ. Correct.

Senator CURTIS. And the cattle feeders in my State are suffering a loss of from $150 to $200 per head, and some of them are having to sell their land to pay their debts. They will have a loss carryover for a good many years and a tax deduction will not put money in their pockets, will it?

Secretary SHULTZ. No, sir.

Senator CURTIS. I think on this question of expenditures we could well direct attention to the chart that is on the inside of the little pamphlet, the Budget in brief. It says that 37 cents of the taxpayer's dollar goes for benefits to the individual, and 17 cents goes for benefits tax paid to States and localities and subdivisions, which means 54 cents out of every dollar goes back there. Seven cents is for interest on our past sins, which makes it up to 61 cents. The defense of our country takes 29 cents out of the dollar and all other activties of government take 10 cents. I do not know what the Treasury had to do with developing that part, but I think it is very informative. And I have no further questions, Mr. Chairman.

Senator TALMADGE. Thank you.

Senator Mondale?

Senator MONDALE. I am all through.

Senator TALMADGE. Thank you, Mr. Secretary. We certainly appreciate your appearing before us and presenting you views this morning.

Secretary SHULTZ. Thank you, Mr. Chairman.

Senator TALMADGE. The next witness is the very distinguished member of our own committee, the distinguished senior Senator from Minnesota, the Honorable Walter Mondale.

## STATEMENT OF HON. WALTER F. MONDALE, U.S. SENATOR FROM THE STATE OF MINNESOTA

Senator MONDALE. Thank you very much, Mr. Chairman.

Senator TALMADGE. Thank you, Senator, and we are honored to have you as a witness before your own committee.

Senator MONDALE. I am grateful to you for agreeing to change your schedule in order to preside at what I consider to be a very, very important hearing.

Mr. Chairman, may I ask that my full statement appear in the record as though read?

Senator TALMADGE. Without objection, it is so ordered.

Senator MONDALE. And I am just going to refer to excerpts, Mr. Chairman.

Mr. Chairman, I have proposed in S. 2906 to provide the taxpayer an option of taking a $200 credit for themselves and each of their dependents, or continuing to use their existing $750 exemption. This proposal, if adopted into law, would bring about $6 billion worth of tax relief to Americans earning $20,000 or less per year and would be of particular benefit to families earning between $5,000 and $15,000 per year.

I made this proposal for two reasons. First of all it is needed to combat the recession which may already be upon us. Second, it is needed to help make up for inflation and higher taxes that are imposing cruel burdens on working Americans.

We have just heard from the Secretary, who I think takes a very sanguine view of the economy. Just this past week, the Wharton School, the University of Pennsylvania, one of the most highly regarded economic institutions in the country, said that the United States is in a recession, marked by a decline in the gross national product. Just a few days ago, the Wall Street Journal reported that industrial output had declined by six tenths of 1 percent during February, and it is in the third straight monthly drop in this figure. Unemployment has risen sharply. The average work week is down and we are in the middle of a negative growth rate. And it seems to me that we ought to look at the economy as it is, and not as we wish it were.

Once before, in 1964, we used a tax cut to stimulate the economy, and it led to an extraordinary period of prosperity without significant inflation. I believe that a tax cut can have a similar impact today with family budgets being squeezed by higher prices for food and fuel and higher taxes, and real consumer spending headed down. The growing fear of unemployment and general economic uncertainty can only worsen this decline.

To combat this slackening in consumer demand, a moderately stimulative Federal budget would be in order. However, instead of that the Administration has proposed a restrictive budget. By restrictive, we mean a budget which will contribute to unemployment, contribute to the reduced economic activity. It contains a full employment surplus of $8 billion, which will serve as what the economists call a fiscal drag, slowing down the economic growth, throwing us possibly into a recession, if we are not already there, and doing so, in all likelihood, without restraining inflation.

A tax cut can put an additional $4 billion to $6 billion in the hands of consumers, and would give a badly needed boost to the economy. The administration has already acknowledged one budgetary move to stimulate the economy, although in my opinion it is a remarkably inappropriate one. Testifying before the House Appropriations Committee, Defense Secretary Schlesinger, the other day, said that over $1 billion was added in the last minute to the Pentagon budget for "economic stimulus". Well, it seems to me that is a recognition that the economy is sluggish. It is also, in my opinion, the worst way to go about it. It would be far better it seems to me, to take this money and some more and bring it into the hands of people living on moderate and low incomes, so that they might do a better job meeting their own needs. And by virtue of their expenditures, they would help stimulate the economy.

The average American family is being tortured by inflation and by higher taxes. Hearings before the Subcommittee on Children and Youth which I chair, have brought home to me dramatically the economic pressures which confront American families. These pressures are seriously threatening the stability of a growing number of families and are undermining the most important institution in our society.

Mr. Chairman, the other day I put figures in the record that show that there is a startling and dramatic rise in mortgage foreclosures, which I think is a good sign that the bite of unemployment, of inflation, which is the worst since World War II, the bite of reduced workweeks and rising unemployment is forcing thousands and thousands of working Americans to the point where they cannot even keep up the payments on their mortgages and keep their own homes. And when we get to that point, it seems to me, it is time for us to use the tax tool to see if we cannot help.

A recent study by the Joint Economic Committee says a family which earned $12,000 last year needs $13,300 this year, just to stay even. And, of course, most of them did not get any such increase and the result is that their purchasing power is dropping dramatically. We have seen rising gasoline prices, which alone this year will cut workers' purchasing power by $18 billion to $20 billion. We have seen food prices soar. Social security taxes are increasing for middle-income families and these payroll taxes have no deductions, no marital reduction, no deductions for medical costs, no deductions based on the size of the family, nothing. It is just a flat, regressive tax which is really a tax on work, and it is one which cannot be escaped by any taxpayer.

Federal income taxes are also increasing as inflation pushes families into higher marginal tax brackets. The average family simply cannot go on like this. They are being squeezed from every direction and it is about time someone paid some attention to them.

Now, in my opinion, this tax credit is the way to proceed. On January 28, I introduced S. 2906 that allows taxpayers the option of taking $200 credit for themselves and each of their dependents instead of the existing $750 personal exemption. This credit is a deduction from the final tax bill. The $750 exemption is a deduction from adjusted gross income, and many people do not understand the difference. But it is tremendous. To a person like, oh, say, Henry Ford, or Nelson Rockefeller trying to make ends meet on their income, the $750 exemption may mean an actual reduction of $525 in real taxes, real tax savings for each dependent in the family. But, if you are an auto worker or a textile worker, or a nurse, someone living on an average income, you are lucky if it means $120 or $150 in actual reduction in your taxes, money that you can actually spend. And that is why through a $200 credit for dependents we are able to deliver substantial tax relief to the families that need it the most, without causing serious damage to the Federal budget. And may I say it provides particularly for help for large families. We have several million families in this country, which are large and who are especially disadvantaged by inflation. A family of six with an income of $8,000 would save $332 on this proposal. The 1972 medium income for families with six or more children, for example, was only $9,653. I have had some people say, well, if you grant a credit for children it will encourage larger families. But, I take judicial notice of the fact that when families are created tax policy is rarely discussed at the time. Other matters are uppermost. And in the meantime, these children are there, they need food, they need clothes, they need good health, they need good food and they need decent education. And we have millions of kids in large families in this country that are being disadvantaged and tortured by inflation. And this particular tax credit, in my opinion, would bring relief to those very families that need it the most and would provide the money where it would do the most good.

Finally, it is my point that this $6 billion would be spent immediately by those receiving it and that would contribute to employment and to improved economic activity. Senator Curtis, who has asked what good would this do to the beef farmer of Nebraska, well, the truth of it is that all studies show that if you give the average family a little more money, the first thing they do is spend it on better food, higher protein. Most parents are very wise in the way they spend their money and if they had a little more money they would be able to buy more high protein food than they can today.

Now, for all of these reasons, I would hope that this proposal could be quickly adopted by the Congress and sent on to the President. And I would hope that it could be coupled with Senator Long's proposal for a working tax credit or bonus so we can help the very low-income people who are earning $3,000, $4,000, $5,000, a year and paying flat payroll tax, which is, in my opinion nothing short of cruel at those wage levels. Together it seems to me, we could get relief where it is needed and help the economy out of a possible recession.

Thank you, Mr. Chairman.

Senator TALMADGE. Thank you very much, Senator Mondale.

As I understand it now, what you recommend, at the option of the taxpayer, is a tax credit or to increase the deduction from $750 to $850. Is that correct?

Senator MONDALE. Yes; what I would do, I would leave the deduction the way it is now. You can take $750 per dependent as you do now, or you can take a $200 credit per dependent, whichever benefits you the most.

Senator TALMADGE. And let the taxpayer take the one that would benefit him the most?

Senator MONDALE. Yes; and studies indicate—there is a table that I would like to put in the record at this point——

Senator TALMADGE. Without objection, it will be inserted.

[The table referred to follows:]

TAX SAVINGS FROM MONDALE PROPOSAL

[Assumes personal deductions of 15 percent of income]

| Adjusted gross income | Present tax | Tax with $200 credit | Tax saving |
|---|---|---|---|
| Married couple with 4 dependents: | | | |
| $5,000 | 0 | 0 | 0 |
| $6,000 | $28 | 0 | $28 |
| $8,000 | 322 | 0 | 322 |
| $10,000 | 620 | $290 | 330 |
| $12,500 | 1,024 | 758 | 266 |
| $15,000 | 1,435 | 1,248 | 187 |
| $17,500 | 1,903 | 1,779 | 124 |
| $20,000 | 2,385 | 2,340 | 45 |
| Married couple with 2 dependents: | | | |
| $5,000 | $98 | 0 | $98 |
| $6,000 | 245 | 0 | 245 |
| $8,000 | 569 | $333 | 236 |
| $10,000 | 905 | 690 | 215 |
| $12,500 | 1,309 | 1,158 | 151 |
| $15,000 | 1,765 | 1,648 | 117 |
| $17,500 | 2,233 | 2,179 | 54 |
| $20,000 | 2,760 | 2,740 | 20 |
| Married couple with 1 dependent: | | | |
| $5,000 | $208 | 0 | $208 |
| $6,000 | 362 | $153 | 209 |
| $8,000 | 706 | 533 | 173 |
| $10,000 | 1,048 | 890 | 158 |
| $12,500 | $1,463 | $1,358 | $105 |
| $15,000 | 1,930 | 1,848 | 82 |
| $17,500 | 2,416 | 2,379 | 37 |
| $20,000 | 2,948 | 2,940 | 8 |
| Married couple with no dependents: | | | |
| $5,000 | $322 | $169 | $153 |
| $6,000 | 484 | 353 | 131 |
| $8,000 | 848 | 733 | 115 |
| $10,000 | 1,190 | 1,090 | 100 |
| $12,500 | 1,628 | 1,558 | 70 |
| $15,000 | 2,095 | 2,048 | 47 |
| $17,500 | 2,604 | 2,579 | 25 |
| $20,000 | 3,135 | 3,135 | 0 |
| Single person: | | | |
| $5,000 | $491 | $433 | $58 |
| $6,000 | 681 | 637 | 44 |
| $8,000 | 1,100 | 1,078 | 22 |
| $10,000 | 1,530 | 1,515 | 15 |
| $12,500 | 2,059 | 2,059 | 0 |
| $15,000 | 2,630 | 2,630 | 0 |
| $17,500 | 3,249 | 3,249 | 0 |
| $20,000 | 3,915 | 3,915 | 0 |

Senator MONDALE. Most persons earning under $20,00 benefit from the credit.

Senator TALMADGE. What is the estimate of what it would cost?

Senator MONDALE. About $6.5 billion.

Senator TALMADGE. Do you have any plans to make up that cost, or would you add it to the deficit?

Senator MONDALE. It would be added to the deficit in the short run, but I think that by increased economic activity—as we found in the 1964 tax cut—that actually the revenues returned to the Treasury would pay for it. And then when we got into a position where the economy was on a strong growth curve, I would propose filling some tax loopholes and in other ways trying to pick up increased revenues in order to slow down economic growth.

Senator TALMADGE. Do you have any fear that the shortage or addition to the deficit would add further fuel to the fires of inflation?

Senator MONDALE. It is my argument—and I have several letters on this that I would like to put in the record from Walter Heller and Arthur Okun, and others—that, basically, we are in a cost-push period, where in selected areas—energy, food, health, we have cost-push factors that are basically fueling the economy, but that we do not have a surplus demand economy at this time. We, for example, know that auto production is off from 11 to 7 million cars. We do not have a recession, we have a depression in housing. We have rising unemployment. And what this tax credit would do, if adopted, would be to give us almost precisely a full employment balance, which, according to many economists, is exactly where it should be. It would give us the best balance between a rising economy, employment, and the rest, because the present budget clearly, in my opinion, is calculated to increase unemployment, and my bet is that it will increase unemployment and we will have rising inflation at the same time because they are trying to remedy essentially a cost-push inflationary problem with an excess demand remedy, and they pass in the night. That is why we have had—because we have tried this before—we have had what is called a slumpfication. You have a recession and inflation at the same time.

Senator TALMADGE. Thank you, Senator Mondale, for a very fine statement.

Senator MONDALE. Thank you.

[The prepared statement of Senator Mondale and a Congressional Record excerpt entitled "Economists Comment on Mondale $200 Optional Tax Credit Proposal," follows. Hearing continues on page 59.]

### PREPARED STATEMENT OF WALTER F. MONDALE, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Mr. Chairman, I appreciate this opportunity to testify on the need for an anti-recession tax cut, and on the legislation I introduced (S. 2906) to give taxpayers the option of taking a $200 credit for themselves and each of their dependents, or continuing to use the existing $750 exemption.

As a member of the Committee, I would first like to commend Chairman Long for his initiative in calling these hearings. There are legitimate differences of opinion on both the need for a tax cut, and on the form it should take. I believe the Finance Committee will be in a much better position to act responsibly on tax cut proposals after these differences are fully discussed.

I have received comments from a number of distinguished economists on this issue which I believe would be very helpful to the Committee. I ask that a statement I made in the Congressional Record on March 12 summarizing their comments, along with their letters, be included in the hearing record.

I would also like to commend our colleague, Senator Kennedy, for his outstanding work on this issue. The tax cut amendment he offered on the Senate Floor earlier this year—which passed 53–27—was instrumental in focusing attention on the potential for an anti-recession tax cut.

The case for a tax cut rests on two relate grounds:

(1) It is needed to combat the recession which may already be upon us; and

(2) It is needed to help make up for the inflation and higher taxes that are imposing such a cruel burden on working Americans.

If at the same time taxes can be cut in such a way that the equity of our tax system is improved, the case for a cut becomes even stronger.

#### AN ANTIDOTE TO RECESSION

The case for a tax cut as an antidote to recession will be made in detail tomorrow by two very distinguished former Chairman of the Council of Economic Advisers, Walter Heller and Arthur Okun.

Let me merely summarize it briefly.

As you recall, the President's budget-makers have promised to do "whatever is necessary" to avoid a recession in 1974.

So far, the Administration has tried incantation ("There will be no recession in the United States of America"), and redefinition (there will be no recession "as we define it").

Neither has worked. Exorcism presumably remains an option.

All the while, the economy continues to slide steadily downward.

Industrial production has declined for the third month in a row, unemployment has jumped sharply, the average workweek is down, and the growth rate is negative.

The respected economic forecasters at the University of Pennsylvania's Wharton School have just predicted a decline in real growth of 3 percent in the first half of this year, and have stated flatly that we are already in a recession.

Once before, in 1964, a tax cut was used to stimulate the economy, and it led to an extraordinary period of prosperity without significant inflation. I believe a tax cut can have a similar impact today.

With family budgets being squeezed by higher prices for food and fuel and higher taxes, real consumer spending is already headed down. The growing fear of unemployment and general economic uncertainty can only worsen this decline.

To combat this slackening in consumer demand, a moderately stimulative Federal budget would be in order.

Instead, the Administration has proposed a highly restrictive budget for the 1975 Fiscal Year, with a full employment *surplus* of $8 billion. This will clamp down on growth and employment even more than this year's estimated $4 billion full employment surplus, which has already served to throw us into a recession.

A tax cut that put an additional $4–6 billion in the hands of consumers would give a badly-needed boost to the economy.

The Administration has already acknowledged one budgetary move to stimulate the economy, although it is a remarkably inappropriate one.

Testifying before the House Appropriations Committee last month, Defense Secretary Schlesinger admitted that the Pentagon budget had been increased by more than $1 billion at the last minute to provide "economic stimulus."

Apart from its dubious necessity in a time of declining internatonal tensions, this extra $1 billion is a singularly inefficient way of providing more jobs. In its 1972 Manpower Report, the Labor Department estimated that an additional $1 billion spent on "aircraft and ordnance" would generate only about 66,000 new jobs. The same amount spent on "personal consumption," however, would generate 82,500 new jobs—fully 25 percent more.

A tax cut focused on consumers, therefore, would be a much more effective job-creating measure than increased military spending.

Concern has been expressed that a tax cut will simply fuel inflation. But the inflation that besets us today is largely concentrated in food and fuel, where the impact of general fiscal policy is swamped by a variety of special factors, including the Russian wheat deal, the Arab oil embargo, and maladroit handling of price controls.

It is what the economists call cost-push, rather than demand—pull, inflation.

A tight fiscal policy has done little to avert this food and fuel inflation it can do little to alleviate. It can merely add a recession to the existing inflation.

## COMPENSATION FOR INFLATION AND HIGHER TAXES

The average American family is being tortured by inflation and higher taxes.

Hearings before the Subcommittee on Children and Youth—which I chair—have brought home to me dramatically the economic pressures which confront American families. These pressures are seriously threatening the stability of a growing number of families, and are undermining the most important institution in our society.

A recent study by the Joint Economic Committee shows that a family earning $12,000 lost over $1000 in purchasing power last year because of inflation, and paid nearly $300 in additional Social Security and income taxes.

Lower income families were even harder hit, since they had to spend more on necessities like food, housing, and fuel, where price increases were greatest.

The outlook for this year is just as bad, if not worse.

Economists have estimated that rising gasoline prices alone will cut into workers' purchasing power by $18 to $20 billion in 1974, and food prices are continuing to soar.

Social Security taxes are also increasing for middle income families. A family earning $13,200 this year will pay $772 in Social Security taxes, an increase of $140 over last year. That's a jump of more than 22 percent.

Federal income taxes are also increasing, as inflation pushes families into higher marginal tax brackets. A study prepared for me by the Congressional Research Service shows that a family that earned $6749 in 1972 paid 5.4 percent of their income in taxes. By 1975, that family will have to earn $8,295 just to keep up with inflation, but because that pushes them into a higher bracket, their tax will come to 7.4 of their income. That means a real tax increase of $258, even though there is no increase in real income.

Similarly, a family earning $13,498 in 1972 paid 11.7 percent of their income in Federal income taxes. By 1975, that family will have to earn $16,577 just to keep up with inflation, and their tax will come to 14.1 percent of their income—a tax increase of $584 on the same real income.

The average American family simply cannot go on like this. They are being squeezed from every direction. It is about time someone paid some attention to them.

A tax cut would not make up entirely for this erosion in their real incomes. But it would make a start. And it would show them that somebody here cares about what they are suffering.

TAX EQUITY

As I indicated at the outset, there are some who question the need for a tax cut at this time. However, if we can cut taxes in a way that also improves the equity of our tax system, I believe the case for a tax cut becomes more compelling.

On January 28 I introduced legislation—S. 2906—that would allow taxpayers the option of taking a $200 credit for themselves and each of their dependents instead of the existing $750 personal exemption.

Anyone who wished to continue using the $750 exemption could do so. However, because the $200 credit would be substracted directly from the final tax due, rather than from the income on which the tax is figured, it would be worth more in tax savings than the $750 exemption to almost all families earning $20,000 a year or less.

The average family would save nearly $200 a year in taxes under this proposal and the total amount of tax relief would come to $6.5 billion.

A family of four earning $8000 a year would save $236, while a family of the same size earning $15,000 would save $117.

Larger families would save more. A family of six with an income of $8000 a year would save $332, while a family of six earning $15,000 would save $187.

This relief is especially important for larger families with four or more children—who make up nearly 9 percent of all families—since their incomes tend to be below those of smaller families. The 1972 median income for families with six or more children, for example, was only $9,653, while the median income for all families was $11,115.

Mr. Chairman, I ask that a series of tables showing the tax savings from the $200 optional credit for families of different sizes be included in the hearing record at this point.

I believe this new optional $200 credit would be a significant step toward greater tax equity and fairness.

Hearings on American families before my Subcommittee on Children and Youth have demonstrated the unfairness of the existing $750 exemption. While it is designed in large part to help families raise their children, it discriminates strongly against low and moderate income families.

The existing $750 exemption for dependents is much more valuable for the wealthy than it is for average Americans. It provides the most help to those who need it least, and the least help to those who need it most.

For those in the highest 70 percent bracket—making $200,000 a year and more—each $750 exemption is worth $525 in reduced taxes. But for someone in the lowest 14 percent bracket making around $5,000 a year, each $750 exemption is worth only $105 in reduced taxes.

The new optional $200 credit would be worth the same amount in reduced taxes—$200—to everyone who used it.

Cutting taxes by instituting a $200 optional credit would concentrate the bulk of the relief on the low and middle income families that have been hardest hit by inflation and higher taxes.

The $200 optional credit gives 78 percent of the relief to those making between $5,000 and $15,000, and 99 percent to those making less than $20,000.

Increasing the $750 exemption by $100, however, gives only 56 percent of the relief to those in the $5,000 to $15,000 brackets, even though they make up 60 percent of all taxpayers. Furthermore, it gives nearly 20 percent of the relief to those making more than $20,000, even though they represent less than 10 percent of all taxpayers.

By concentrating the bulk of the relief on those families making less than $15,000, the $200 credit not only helps those most in need, it also provides the greatest amount of stimulus to our lagging economy.

Families in these income brackets must spend all—or more than all—of their income on everyday necessities, and have little left over to save. The tax relief they receive, therefore, will be immediately pumped back into the economy in the form of increased consumer spending. Only 1 percent of the relief from a $200 credit would go to those making more than $20,000, who tend to save a much larger percentage of their additional income rather than spending it.

In addition, the longer-term revenue loss from a $200 optional credit would be less than from increasing the $750 personal exemption.

Here is why. As incomes increase and taxpayers are pushed into higher tax brackets, fewer of them would find it advantageous to use the $200 credit, since the credit only benefits those with a marginal bracket below 27 percent (roughly $20,000). With fewer taxpayers using the credit, the revenue loss would decline.

When the $750 exemption is increased, however, the reverse occurs—the revenue loss increases with rising incomes. That is because the exemption is worth more in reduced taxes as the taxpayer's marginal tax bracket gets higher.

An excellent analysis prepared for me by Dr. Joseph Pechman of the Brookings Institution illustrates this point. While the revenue loss from the $200 credit is $6.5 billion in 1972, it declines to $5.9 billion in 1974 and $5.66 billion in 1975.

When the personal exemption is increased by $100, however, the 1972 revenue loss of $3.5 billion increases to $4.0 billion in 1974 and $4.5 billion in 1975.

Thus, while a $200 credit would gradually open up more fiscal options as time went on (further tax cuts, additional spending, etc.), an increase in the $750 exemption would gradually close them off.

### CONCLUSION

Mr. Chairman, the case for a tax cut is a strong one. It can help head off a recession, ease the economic burden on working Americans, and, if done properly, make our tax system more equitable.

It is not often that sound fiscal policy, economic justice, and tax equity coincide. In this instance they do. We should not let the opportunity pass.

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[From the Congressional Record, Mar. 12, 1974]

## ECONOMISTS COMMENT ON MONDALE $200 OPTIONAL TAX CREDIT PROPOSAL

Mr. MONDALE. Mr. President, on January 28, I introduced S. 2906, which would cut nearly $200 a year from the average family's tax bill by allowing taxpayers to take a $200 credit for themselves and each of their dependents instead of the existing $750 personal exemption.

This bill would increase the purchasing power of low- and middle-income Americans by nearly $6.5 billion, and help to head off the growing threat of recession.

I am very pleased that the Senator from Minnesota (Mr. Humphrey), the Senators from Iowa (Mr. Clark and Mr. Hughes), the Senator from Louisiana (Mr. Johnson), the Senator from Connecticut (Mr. Ribicoff), and the Senator from Utah (Mr. Moss) have joined me in cosponsoring S. 2906.

I am pleased also that the distinguished Congresswoman from Michigan (Mrs. Griffiths), a senior member of the House Ways and Means Committee, has introduced companion legislation in the House (H.R. 13197).

Shortly after introducing this legislation, I wrote to a number of distinguished economists seeking their views on the proposal. I have now received a number of responses, and I would like to share them with my colleagues.

I am very encouraged by the support shown in these letters. While some of those responding had reservations about the proposal, they all contained extremely helpful suggestions and thoughtful comments.

It is clear from the comments I have received that there are differences of opinion on the need for a tax cut at this time. There are also differences—although fewer—on the form such a tax cut should take.

This underlines the importance of the hearings Chairman Long has scheduled for next Tuesday, March 19, on tax cut proposals. There should be a full airing of views on such an important matter. The chairman's decision is a welcome and constructive response to the deteriorating economic outlook.

I suggested hearings along these lines in a letter to Chairman Long last month, and I am extremely pleased that time has been found for them on the very full Finance Committee schedule.

There are three important justifications for the $200 optional tax credit.

It will help make up for the inflation and higher taxes that are imposing such a cruel burden on the average family.

It will help to head off the impending recession.

It will make our tax system more equitable.

Most of the comments I received dealt with some or all of these points.

### COMPENSATION FOR INFLATION AND HIGHER TAXES

Inflation is accelerating. Prices rose 8.8 percent last year, but the rate was nearly 10 percent in the last 3 months, and consumer prices in January of this year rose at an annual rate of 12 percent.

Taxes too are going up, as inflation pushes taxpayers into higher brackets, and as payroll tax rates apply to higher levels of income.

A $200 optional tax credit would compensate—at least in part—for this erosion in workers' incomes.

Walter Heller, Chairman of the Council of Economic Advisers under Presidents Kennedy and Johnson, emphasized this justification for the $200 credit in his letter:

"Inflation has eroded and is eroding the real purchasing power of the $750 exemption at a rapid rate. The boosting of that exemption to restore its previous value, therefore, ought to have a high priority. Since inflation has taken a particularly heavy toll at the modest and low income levels (especially because of the leap in food and oil prices), it is appropriate that more of the benefits of any tax adjustment today should be concentrated in the low income groups. The shift to a credit option serves this purpose."

George Perry, senior fellow at the Brookings Institution, made the same point:

"Consumers real incomes have declined in 1973 as a result of soaring food prices and will decline further in 1974 as a result of soaring fuel costs. Your tax proposal would restore some of these real income losses."

Arthur Okun, Chairman of the Council of Economic Advisers under President Johnson:

"In 1974 the American consumer will be spending directly and indirectly for fuel about $20 billion more than last year to get less product. This drain on the budget is bound to have serious effects on the experience of other consumer industries—what the consumer spends on oil is not available for spending on other discretionary items ranging from movie tickets to television sets. Indeed, if the oil embargo ends and the availability of gasoline increases while its price remains high, the drain on the consumer budget will be even greater. . . .

"In the present context, the provision of a consumer tax cut may help prevent the kind of retrenching in consumer living standards that might otherwise take place in response to layoffs and fuel and food inflation."

### AN ANTIDOTE TO RECESSION

In a column in the March 3 Washington Post, Hobart Rowen reported that key Nixon administration advisers have concluded that the downturn in real GNP for the first quarter of this year "could be over 3 percent, and possibly as much as 4 percent."

The respected economic forecasters at the Wharton School at the University of Pennsylvania have made a similar prediction.

This is decidedly more gloomy than even the relatively cheerless report of the Council of Economic Advisers a month ago. And, of course, it can scarcely be squared at all with the Canute-like pronouncements of President Nixon that——

"There will be no recession in the United States of America."

When industrial production is declining, unemployment is growing, and the growth rate is negative, it takes more than verbal legerdemain to convince people that we are not in a recession.

So far, the administration's principal method of attacking the recession has been to try to define it away.

The budget it has proposed for the 1975 fiscal year can only make things worse. It is highly restrictive, with a full employment surplus of $8 billion. This means spending will be $8 billion less than it would have to be to pump up the economy and bring unemployment down to the "full employment" level of 4 percent. This will clamp down on growth and employment even more than this year's estimated $4 billion full employment surplus, which has already served to bring the economy to a standstill.

The $200 optional tax credit would put an additional $6.5 billion in the hands of consumers, and give the economy a badly needed shot in the arm.

Most of the economists who wrote commented on this justification for the $200 credit:

Walter Heller put it this way:

"Under present circumstances, with the economy sliding toward a recession, and with the President's budget projecting an increase in the full-employment budget surplus (in NIA, or National Income Accounting terms) between fiscal 1974 and fiscal 1975, the $6.5 billion of fiscal stimulus implicit in your plan would be a welcome stimulus to a lagging economy. Moreover, it is the kind of a boost that could be translated into the withholding system and therefore into higher paychecks very quickly."

George Perry wrote:

"By all available evidence, the economy is already in another recession. A boost to consumer purchasing power will help fight the downturn, lessening the rise in unemployment that is in store and improving the probability of a prompt recovery."

Robert Eisner, professor of economics at Northwestern University:

"I believe that your proposed legislation for an optional $200 per dependent credit is an excellent step in the direction of stimulating the economy. . . ."

Arthur Okun:

"In view of the bleak outlook for consumer expenditures (which represent nearly two-thirds of our GNP), the prospects for an early upturn are very speculative. There is considerable risk that the sag could continue all year in the absence of policies to bolster activity. On the other hand, there is little risk of a self-generating upsurge in the economy that would make additional fiscal support inappropriate. Thus, a well-timed cut in consumer taxes would be an important insurance policy against a prolonged and sharp slide in employment and output. . . .

"The vast bulk of the additional consumer spending will go into areas where the economy has available labor and plant capacity to meet and greet added demand. In the present situation, one can feel particularly confident that the response will increase output and employment rather than add to inflation. While a number of shortage areas remain in our economy, those except for food and fuel will be vanishing during the first half of 1974 as rapidly as they emerged during the first half of 1973. The economy's operating rates will be lower by mid-year than they were late in 1972, when lumber was the only significant product with a shortage. In the case of food, only a trivial part of additional consumer income adds to the demand for food and thus a tax cut will have virtually no effect on food prices. In the case of petroleum, the system of price controls should ensure that any increment in demand is not converted into additional inflation. Indeed, by evidencing concern and effort by the government to make up for the acute cost-of-living squeeze on the worker, a tax cut could have beneficial effects in preserving the recent moderate behavior of wages."

Others who responded were not certain that a tax cut was the right economic medicine at this point. However, most said that if a tax cut was decided upon, the $200 optional credit was preferable to an across-the-board cut or an increase in the $750 exemption.

Otto Eckstein, professor of economics at Harvard and a member of the Council of Economic Advisers under President Johnson, wrote:

"The economy is headed for a recession, but a tax cut would come too late. The economy is likely to be moving up at a pretty good rate by the end of the year. The economic impact of a tax cut, even if action were taken immediately, would barely be felt before then. . . .

"If a tax cut is undertaken, it should be in the general form of your proposal. An across-the-board tax cut would mainly benefit middle income families: it would have a very low multiplier because they are not likely to spend the cuts on automobiles and other durables."

Gardner Ackley of the University of Michigan, Chairman of the Council of Economic Advisers under President Johnson:

"I am not sure that further stimulus—which could certainly not be effective for a number of months—is needed. However, there is enough uncertainty about that, that it is probably useful for tax-cut proposals to begin to be discussed and warmed up for use if extra stimulus should become necessary."

Robert R. Nathan, head of Robert R. Nathan Associates, Inc. in Washington:

"I think we are definitely in a recession and I have grave doubts about the basis for believing, as many of my good friends and liberal economists believe, that the economy will pick up in the second half of the year. . . . Therefore, something ought to be done about stimulating the levels of economic activity. . . .

"A tax cut always worries me as a measure for stimulation of economic activity. Almost every time we get a tax cut we end up with a less progressive system. If we are going to have a general tax cut I think your proposal is excellent because it really does help the lower income groups much more than the middle or higher income groups, and that is very necessary."

John Kenneth Galbraith of Harvard:

"Certainly yours is the right way to reduce taxes. The effect on lower income families is more favorable than to raise the exemption.

"However, I am very doubtful about a tax reduction. Inflation is still a major problem. It's a tough fact that tax reduction is the wrong medicine for that. And were there need for more fiscal stimulation, I would respond to the pressure of social need with higher spending and public service employment."

The following table illustrates the point made by many of those who responded; that is, that the $200 optional credit gives proportionately more relief to low- and middle-income taxpayers than do alternative proposals to raise the $750 exemption to $850, or to add a $25 per-person credit on top of the $750 exemption:

| Adjusted gross income class | Percent of taxable returns | Percent of tax relief: $200 optional credit | $850 exemption | Additional $25 credit |
|---|---|---|---|---|
| 0 to $3,000 | 5.3 | 2.6 | 1.3 | 1.7 |
| $3,000 to $5,000 | 12.7 | 9.7 | 5.2 | 6.6 |
| $5,000 to $7,000 | 14.3 | 15.2 | 8.8 | 10.6 |
| $7,000 to $10,000 | 20.1 | 27.2 | 17.4 | 19.9 |
| $10,000 to $15,000 | 25.6 | 35.3 | 30.0 | 31.7 |
| $15,000 to $20,000 | 12.4 | 9.3 | 17.7 | 16.3 |
| $20,000 to $50,000 | 8.7 | .8 | 16.5 | 11.8 |
| $50,000 to $100,000 | .7 | | 2.5 | 1.1 |
| $100,000 plus | .2 | | .1 | .2 |

Source: Joint Committee on Internal Revenue Taxation. Based on calendar year 1972 income levels.

The $200 optional tax credit gives 78 percent of the relief to those in the $5,000 to $15,000 bracket, and 99 percent to those making less than $20,000.

Increasing the $750 exemption by $100, however gives only 56 percent of the relief to those in the $5,000 to $15,000 brackets, even though they make up 60 percent of all taxpayers. Furthermore, it gives nearly 20 percent of the relief to those making more than $20,000, even though they represent less than 10 percent of all taxpayers.

The proposal for an additional $25 per person credit falls roughly between the $200 optional credit and the $850 exemption in the percentage of relief it provides to each income category.

Joseph Pechman, director of economic studies at the Brookings Institution, has prepared an enormously helpful analysis of the $200 credit, the $850 exemption, and two other options, which carries the comparison forward using 1974 and 1975 income levels.

His analysis generally coincides with that prepared for me by the Joint Committee on Internal Revenue Taxation using 1972 income levels. However, Pechman's analysis shows that as income levels rise, a substantially greater percentage of the benefits from the $850 exemption go to those with incomes over $20,000.

I ask unanimous consent that the full text of Dr. Pechman's excellent analysis, and the accompanying tables, be printed in the RECORD at the conclusion of my remarks.

The PRESIDING OFFICER. Without objection, it is so ordered.

(See exhibit 1.)

TAX EQUITY

Mr. MONDALE. Mr. President, a $200 optional tax credit would be a significant step toward tax equity and fairness.

Hearings on American families before the Subcommittee on Children and Youth—which I chair—have demonstrated the unfairness of the existing $750 exemption. While it is designed in large part to help families raise their children, it discriminates strongly against low- and moderate-income families.

The $750 exemption for dependents is much more valuable for the wealthy than it is for average Americans. It provides the most help to those who need it least, and the least help to those who need it most.

For those in the highest 70-percent bracket—making $200,000 a year or more—each $750 exemption is worth $525 in reduced taxes. But for someone in the lowest 14-percent bracket making around $5,000 a year, each $750 exemption is worth only $105 in reduced taxes.

The new optional $200 credit would be worth the same amount in reduced taxes—$200—to everyone who used it, and would make a real start toward reducing the inequity inherent in the $750 exemption.

A number of the economists I wrote stressed the greater equity of credits as opposed to deductions.

Murray Weidenbaum of Washington University, formerly Assistant Secretary of the Treasury for Economic Policy in the Nixon administration:

"I have been urging the substitution of credits for deductions on the personal income tax as a way of increasing the progressivity of the Federal tax structure. The enclosed article presents some of the reasoning."

Otto Eckstein:

"Your tax credit proposal would improve the fairness of our tax system. There is little reason why the value of an exemption—which is meant to help defray the living costs of each family member—should rise with income. Indeed, at the low tax rates of the lower brackets, the tax benefit of the exemption has become so small that it no longer bears any relation to the cost of supporting a dependent."

Robert Eisner:

"[Your proposal] is an excellent step in the direction of . . . redressing inequities in the tax law. As you point out, the $750 exemption offers large tax savings to the rich and little or nothing to the poor."

James Tobin of Yale University, a member of the Council of Economic Advisers under President Kennedy:

"I very much favor conversion of exemptions into credits, and I am glad you are sponsoring such legislation."

Walter Heller:

"The shift [to a credit option] also serves the longer-run purpose of recasting the exemption into a form that makes better sense in terms of a distribution of tax burdens that is fairer to the low income groups."

Wilbur Cohen, dean of the School of Education at the University of Michigan and Secretary of Health, Education, and Welfare in the Johnson administration:

"I strongly support the idea of a tax credit for the personal exemptions. A tax credit is an important tax reform which should have extremely high priority."

Arthur Okun:

"The best type of tax cut would put income rapidly into the hands of lower income and middle-income groups. From that point of view, the $200 credit option for the personal exemption seems ideally suited to meet the economy's needs. It could be promptly reflected in withholding schedules and would provide relief to those who have suffered most as a result of the food and fuel price explosion of the past year. By concentrating the benefits in the tax cut in income groups with marginal tax rates under 26 percent, it improves the progressivity and equity of the tax system."

Many people have trouble understanding why a $200 credit saves low- and middle-income taxpayers more in taxes than a $750 deduction. An example might help.

Suppose a family has an income of $10,000. If there are four people in the family, that means four exemptions worth $750 each, for a total of $3,000. This $3,000—plus the $1,500 standard deduction—is then subtracted from $10,000, and the tax is figured on what is left—$5,500. The statutory tax rate on that is just under 17 percent, and the tax is $905.

Under a system of $200 tax credits, however, only the $1,500 standard deduction is substracted from the $10,000 of income before the tax is figured. The statutory tax rate on this $8,500 of income is just under 18 percent, and the tax would be $1,490.

However, the four $200 tax credits—worth a total of $800—are then subtracted from that $1,490, leaving a final tax due of only $690. This amounts to a saving of $215 over the $905 that would be due using four $750 exemptions.

HELP FOR NONTAXPAYERS

Many of the economists who wrote expressed concern that the $200 optional tax credit would not help those with very low incomes who pay no tax.

Walter Heller, for example, said:

"[The] proposal should be accompanied by other measures that will be of particular benefit to those who fall below the exemption limits and are badly in need of income support from the Federal Government."

James Tobin wrote:

"I believe the credits should be cashable, for families that do not have sufcient tax liability to use the credits against."

Robert Eisner:

"I do believe, however, that there is a serious deficiency in your proposal in failing to provide tax relief for really low income earners whose *income* taxes are less than $200 per dependent or who pay no income taxes at all. . . . I should like to see your proposal enlarged to let the income tax credit be taken against social security taxes to the extent the taxpayer does not have income tax liabilities equal to the amount of the credit."

Robert Nathan:

"I know most of the people pay some income taxes but there are still quite a number at the lower levels who do not pay and they would not be benefited. Therefore, from an equity point of view your proposal goes quite a long way but I don't think it would be quite as helpful to the really low income groups as some moderation in the payroll tax."

Stanley Surrey of the Harvard Law School, Assistant Secretary of the Treasury for Tax Policy under Presidents Kennedy and Johnson, raised a related, but somewhat different, issue:

"[In] 1969 and 1971 the Congress, mainly through the low income allowance, made sure that the income tax would not dip below the poverty level. With inflation and price rises, we now have people below the poverty line being required to pay income tax. I think the first order of business is to restore the prior policy."

The $200 optional tax credit would assure that no one with an income below the poverty line would have to pay Federal income taxes. The following table shows the current poverty line for nonfarm individuals and families, and the level of income below which no tax would be due using a $200 credit:

| Family size | Poverty line | Income below which no tax is due using $200 credit |
|---|---|---|
| 1 | $2,409 | $2,644 |
| 2 | 3,101 | 3,988 |
| 3 | 3,807 | 5,182 |
| 4 | 4,871 | 6,247 |
| 5 | 5,748 | 7,300 |
| 6 | 6,461 | 8,353 |

Joseph Pechman's letter contains an excellent comparison of the impact of three other options on poverty level taxation. It is reprinted at the conclusion of my remarks.

It is true that those who pay no income tax at all would not benefit from the $200 optional tax credit. As many of those who wrote suggested, cuts in the Federal income tax should be accompanied by other measures aimed at helping those with incomes so low they pay no tax.

The Senate has already acted on one such measure, the imaginative and constructive proposal by the distinguished chairman of the Senate Finance Committee, Russell Long, for a "work bonus" for low-income workers. Under the long "work bonus" plan—approved by the Senate on November 30 by an overwhelming 57 to 21 vote—each low-income worker with one or more children would receive a credit equal to 10 percent of his income up to $4,000. The credit would be gradually phased out for those with incomes over $4,000, so that no one with an income of over $5,600 would receive the credit. The credit would be paid whether or not the worker paid any income tax, and would, therefore, benefit those not helped by the $200 optional tax credit I have proposed.

The "work bonus" is in fact an excellent complement to the $200 optional tax credit, since its benefits phase out at just about the income levels where the benefits from the $200 credit begin. The "work bonus" establishes a strong beginning toward helping working Americans with low incomes. It is now in conference as part of H.R. 3153, and I hope the House conferees will agree to accept it.

Many of the economists who wrote me have urged that social security payroll tax reform be given high priority. I have advocated this for a number of years, and I hope we can move in this Congress to ease the heavy burden of the payroll tax on low- and modern-income wage earners and their families. The Long "work bonus" is one step in this direction, and I hope we can build on that to achieve fundamental reform in this very important area.

The excellent work done by Representative Martha Griffiths' Subcommittee on Fiscal Policy over the last 2 years has laid the groundwork for thorough-going reform of the whole range of Federal income and "in-kind" transfer programs that are intended to benefit low-income Americans. As Representative Griffiths' subcommittee has demonstrated, these programs have so many overlaps and differing eligibility formulas that they all must be considered together in devising an effective reform program. Changing just one aspect of the system can often lead to unforeseen and unwanted consequences elsewhere. For example, when a family benefits from a number of programs simultaneously—such as AFDC, food stamps, medicaid, and public housing—it often happens that the family is penalized severely for earning just a little bit of extra money. This entire area stands in need of reform, and I hope we can move on it in the near future.

In addition, we must retain and strengthen the existing social services program—which provides child day care, special help to the mentally retarded, services to help the elderly stay in their own homes—and other services to help low-income families, the disabled, the blind, and the elderly to achieve and retain independence. And we need to enact strong child development legislation, along the lines adopted by the Congress and vetoed by the President years ago. I will soon be reintroducing my child development bill, and I intend to push for early action on it.

Mr. President, I ask that the full text of the excellent letters I have received appear in the Record at this point. In addition, I ask that a column by Walter Heller in yesterday's Wall Street Journal entitled "The Case for Fiscal Stimulus," and a column by Hobart Rowen from the March 10 Washington Post, also be included in the Record at this point.

There being no objection, the material was ordered to be printed in the Record as follows:

[The material follows:]

UNIVERSITY OF MINNESOTA,
*Minneapolis, Minn., February 5, 1974.*

Senator WALTER F. MONDALE,
*U.S. Senate,*
*Washington, D.C.*

DEAR FRITZ: In response to your inquiry of January 31 concerning your proposal for an optional $200 tax credit, I find it attractive for the following important reasons:

Inflation has eroded and is eroding the real purchasing power of the $750 exemption at a rapid rate. The boosting of that exemption to restore its previous value, therefore, ought to have a high priority.

Since inflation has taken a particularly heavy toll at the modest and low income levels (especially because of the leap in food and oil prices), it is appropriate that more of the benefits of any tax adjustment today should be concentrated in the low income groups. The shift to a credit option serves this purpose.

The shift also serves the longer-run purpose of re-casting the exemption into a form that makes better sense in terms of a distribution of tax burdens that is fairer to the low income groups. At the same time, it preserves the existing family differentiation for tax purposes in the higher income groups. So it recognizes both the need for a fair distribution of taxes by size of income and the need for reasonable differentiation of tax burdens according to family obligations.

Under present circumstances, with the economy sliding toward recession, and with the President's budget projecting an increase in the full-employment budget surplus (in NIA, or National Income Accounting terms) between fiscal 1974 and fiscal 1975, the $6.5 billion of fiscal stimulus implicit in your plan would be a welcome stimulus to a sagging economy. Moreover, it is the kind of boost that could be translated into the withholding system and therefore into higher paychecks very quickly.

Needless to say, the exemption proposal should be accompanied by other measures that will be of particular benefit to those who fall below the exemption limits and are badly in need of income support from the Federal Government. It should also be accompanied or quickly followed by measures of tax reform to cut back or end the many unjustified tax preferences that erode our tax system and give unfair tax breaks to the upper income groups. A simple and significant increase in the minimum tax would be a good place to start.

Sincerely,

WALTER W. HELLER,
*Regents' Professor of Economics.*

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THE BROOKINGS INSTITUTION,
*Washington, D.C., February 5, 1974.*

Senator WALTER F. MONDALE,
*Russell Senate Office Building,*
*Washington, D.C.*

DEAR FRITZ: Your proposal to allow taxpayers the option of $200 tax credits in place of the $750 exemptions now available to them on their income taxes is a constructive one and is particularly timely in today's economy. By providing some tax relief for almost all families earning $20,000 or less, the measure responds to the two great problems of 1974—inflation and recession.

Consumers' real incomes have declined in 1973 as a result of soaring food prices and will decline further in 1974 as a result of soaring fuel costs. Your tax proposal would restore some of these real income losses.

By all available evidence, the economy is already in another recession. A boost to consumer purchasing power will help fight the downturn, lessening the rise in unemployment that is in store and improving the probability of a prompt recovery.

A tax reduction of $6.5 billion, which is approximately the revenue loss from your proposal, is fiscally sound. The economy needs a push from the budget and an equitable tax reduction would be a desirable part of a stimulative program. Looking further ahead, even if the economy recovers from the present recession promptly, inflation will have accelerated the normal growth of income tax liabilities, making some permanent tax reduction desirable for the longer run.

In short, your proposal has significant merits on all important fronts. I am pleased to endorse it and hope it is enacted.

With best regards.

Sincerely,

GEORGE L. PERRY,
*Senior Fellow.*

30-468—74——4

YALE UNIVERSITY,
*New Haven, Conn., February 6, 1974.*

Hon. WALTER F. MONDALE,
*U. S. Senate,*
*Washington, D. C.*

DEAR SENATOR MONDALE: Thank you for your letter of January 31st. I very much favor conversion of exemptions into credits, and I am glad you are sponsoring such legislation. However, I believe the credits should be cashable, for families that do not have sufficient tax liability to use the credits against.

I enclose a paper which may be of interest.

Sincerely,

JAMES TOBIN.

(The paper referred to is entitled "Reflections on Recent History", and was given by Professor Tobin on December 28, 1973 before the American Statistical Association.)

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LAW SCHOOL OF HARVARD UNIVERSITY,
*Cambridge, Mass., February 7, 1974.*

Hon. WALTER F. MONDALE,
*U.S. Senate,*
*Old Senate Office Building,*
*Washington, D.C.*

DEAR FRITZ: This is in reply to your letter regarding the $200 tax credit as an alternative to the $750 personal exemption. This is an interesting approach and certainly deserves consideration.

My initial thought is that I would like to see somebody score it out with respect to the possible competing alternatives. For example, in 1969 and 1971 the Congress, mainly through the low income allowance, made sure that the income tax would not dip below the poverty level. With inflation and price rises, we now have people below the poverty line being required to pay income tax. I think the first order of business is to restore the prior policy. My guess is that this could be accomplished by increasing the low income allowance. Most of the revenue involved would go to people around and above the poverty level.

The next question is whether income tax relief should be given to people with up to $15,000 income or so because inflation has pushed them into higher brackets and thus increased their tax burdens. If the answer is "yes", then we come down to a choice of method. One way is granting a vanishing credit as an alternative to the exemption, which is your approach. Another way is to raise the exemption itself. The second way is simpler and more traditional. The credit approach may be in a sense too generous to large families. I gather the economists feel that each additional child is not entitled to the same tax offset as the preceding child. On the other hand, I can understand that large families have problems and you may want to do something about that. Once we have straightened out the starting point of the income tax, the real utility of personal exemptions (or credits) is to achieve the proper tax relationship among different households—single people, married couples, married couples with one child, two children, etc. It is possible that the personal exemption does this better than the tax credit.

Of course the tax credit approach does cut off tax reduction at some point whereas an increase in the personal exemption runs all the way up the scale. The choice may thus come down to what one desires to focus on—stopping tax reduction at some point or, on the other hand, giving more attention to the relative tax burdens among different family compositions at the same income tax level.

I would suggest that you ask the people at Brookings to score out three alternatives—an increase in the low income allowance (and perhaps a change in exemption) to get the starting point back to the poverty level; after that, comparing your credit approach with any straight increase in exemptions. If this is done one can see the differences among income groups and the choice would become somewhat easier.

This obviously is a hasty letter. If you do get further information from Brookings I would be glad to look it over.

Sincerely,

STANLEY S. SURREY.

NORTHWESTERN UNIVERSITY,
*Evanston, Ill., February 8, 1974.*

Hon. WALTER F. MONDALE,
*U.S. Senate,*
*Washington, D.C.*

DEAR SENATOR MONDALE: I believe that your proposed legislation for an optional $200 per dependent credit is an excellent step in the direction of stimulating the economy and redressing inequities in the tax law. As you point out, the $750 exemption offers large tax savings to the rich and a little or nothing to the poor. Ideally, the exemption should be replaced entirely by a flat credit. I can understand, though, that the credit will prove politically more acceptable if it is made optional so that no opposition need develop from upper income taxpayers who would find themselves worse off with the credit than the exemption.

I do believe, however, that there is a serious deficiency in your proposal in failing to provide tax relief for really low income earners whose income taxes are less than $200 per dependent or who pay no income taxes at all. For many of these individuals and families lose substantial parts of their income in social security taxes. I should like to see your proposal enlarged to let the income tax credit be taken against social security taxes to the extent the taxpayer does not have income tax liabilities equal to the amount of the credit. This could presumably be done by having the social security account credited with the amount of the income tax credit and the taxpayer in turn refunded the amount that has been withheld for social security.

Even this amendment would not offer relief to the very poor who are not earning income on which social security payments are made. However, it would move a considerable way in the direction in which you are headed of eliminating tax benefits that help the rich and give much lesser relief if any to middle and low income households.

On the matter of where to make up the revenue loss when this proves necessary, I would urge that the "long-overdue reform of foreign and domestic tax loopholes," to which you refer is much better than a tax directed towards excess profits. I think it folly to try to take away more in direct profits taxes while refusing to eliminate the huge give-aways in tax credits for foreign payments for oil, along with the benefits from depletion allowances, current charging of development and drilling costs, and equipment tax credits and accelerated depreciation throughout the economy.

Sincerely,

ROBERT EISNER,
*Professor of Economics.*

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WASHINGTON UNIVERSITY,
*St. Louis, Mo., February 11, 1974.*

HON. WALTER F. MONDALE,
*U.S. Senate,*
*Washington, D.C.*

DEAR SENATOR MONDALE: This is in reply to your letter of January 31, with reference to your proposal for a $200 tax credit. As you may know, I have been urging the substitution of credits for deductions on the personal income tax as a way of increasing the progressivity of the Federal tax structure. The enclosed article presents some of the reasoning.

However, I am concerned that the $6.5 billion estimated revenue loss would add to inflationary pressures which remain so very strong. In this environment, I would suggest that a more effective way of combatting unemployment would be to redirect government spending to the creation of jobs for the unemployed.

Perhaps your approach can be combined with a more comprehensive tax reform proposal that would not yield a large net loss of revenue.

With all best wishes.

Sincerely,

MURRAY L. WEIDENBAUM.

(The article referred to is entitled "Shifting from Income Tax Deductions to Credits", and appears in the August, 1973, issue of TAXES—The Tax Magazine.)

HARVARD UNIVERSITY,
*Cambridge, Mass., February 11, 1974.*

HON. WALTER F. MONDALE,
*U.S. Senate,*
*Washington, D.C.*

DEAR SENATOR MONDALE: Thank you for the opportunity to take a look at your proposal of a $200 personal income tax credit for each dependent as an alternative option to the existing $750 exemptions. Here is my reaction.

(1) Is the tax cut needed now?

The economy is headed for recession but a tax cut would come too late. The economy is likely to be moving up at a pretty good rate by the end of the year. The economic impact of a tax cut, even if action were taken immediately, would barely be felt before then. This has always been the problem with using taxes to fight recession—it is just too slow. The major current problems of policy are not to find a fiscal stimulus, but to handle the energy situation more skillfully. If the driving situation remains in its present state, there will be major damage to retail sales and to the housing industry.

If a tax cut is undertaken, it should be in the general form of your proposal. An across-the-board tax cut would mainly benefit middle income families; it would have a very low multiplier because they are not likely to spend the cuts on automobiles and other durables.

My feeling against a tax cut is mainly based on the longer-term needs for resources by the federal government. We have cut taxes too much in the last four years, and we will need the tax base to meet future social goals.

Also, the current flush financial condition of the states and localities will be short-lived. Strong income growth and revenue sharing have been of tremendous benefit to local governments. But there is no plan to expand revenue sharing, and the economy will soon be producing less revenue growth. In one way or another, the federal government will be asked to pick up more of the financial burdens.

(2) Pros and Cons of the proposal

Your tax credit proposal would improve the fairness of our tax system. There is little reason why the value of an exemption—which is meant to help defray the living costs of each family member—should rise with income. Indeed, at the low tax rates of the lower brackets, the tax benefit of the exemption has become so small that it no longer bears any relation to the cost of supporting a dependent.

I would not make the tax credit an optional feature. While I recognize that this approach assures that no family will have to pay more, the use of optional features in the tax system hurts taxpayer morale. We now have options for income averaging, for itemized versus standardized deductions, and for other features. Each option leads to extra calculations and opportunities for the tax services. The present proposal would create this kind of option for the entire low- and lower-middle income taxpaying population.

While there are other tax changes that could accomplish the same goal, particularly the "vanishing exemption" or changes in rate structure, there is a simplicity to the optional tax credit which may make it more acceptable. Given the choice of the present system versus the Mondale proposal, I would favor the Mondale proposal.

I am very pleased to see that you are taking initiatives in the tax and economic policy areas.

With best wishes.

Sincerely,

OTTO ECKSTEIN.

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UNIVERSITY OF MICHIGAN,
*Ann Arbor, Mich., February 19, 1974.*

Hon. WALTER F. MONDALE,
*U.S. Senate,*
*Washington, D.C.*

DEAR FRITZ: I am certainly sympathetic with the purposes of your proposal for an optional $200 tax credit as an alternative to the existing personal exemption.

My reservations are essentially three. First, the Budget presented by the President is a fairly stimulative one, in my judgment. Moreover, I tend to be more optimistic than some others about the prospects for the economy. My own forecast sees a quite healthy expansion occurring beginning about mid-year and continuing through at least the first half of 1975. I am not sure that further stimulus—which could certainly not be effective for a number of months—is needed. However, there is enough uncertainty about that, that it is probably useful for tax-cut proposals to begin to be discussed and warmed up for use if extra stimulus should become necessary.

Second, I find it difficult to become committed to individual pieces of a tax reform program without knowing what the other pieces will be. While I favor making the personal tax more progressive, especially at the lower end, there are many other variables, including rate structure, standard deductions, credit for payroll taxes, etc. which could achieve this and which could be even more useful elements in a total tax reform package. However, I assume that the various elements need to be traded off against each other in the effort to secure a balanced and enactable package. Giving away the goodies of tax reductions one at a time, may not be the best way to achieve an effective reform, which needs to include a great many tax increase elements.

My feeling is that for the long run we are going to need a Federal tax system which will take at least as much out of the economy as our present system. I therefore would not support other than temporary and easily reversible tax cuts for fiscal policy reasons unless there were no alternative. You, of course, are in a far better position than I am to know what is feasible.

In any case, I congratulate you for getting some of these issues on the fire, and wish you every success in this as in your other endeavors.

Sincerely,

GARDNER ACKLEY,
*Professor of Economics.*

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HARVARD UNIVERSITY,
*Cambridge, Mass., February 20, 1974.*

Senator WALTER F. MONDALE,
*U.S. Senate,*
*Washington, D.C.*

DEAR FRITZ: I am away in Switzerland composing a book—appropriately on money and its history. Do forgive me for not commenting at length on your proposal. Certainly yours is the right way to reduce taxes. The effect on lower income families is more favorable than to raise the exemption.

However, I am very doubtful about a tax reduction. Inflation is still a major problem. It's a tough fact that tax reduction is the wrong medicine for that. And were there need for more fiscal stimulation, I would respond to the pressure of social need with higher spending and public service employment.

All the best.

Yours faithfully,

JOHN KENNETH GALBRAITH.

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ROBERT R. NATHAN ASSOCIATES, INC.,
*Washington, D.C., February 25, 1974.*

Hon. WALTER F. MONDALE,
*U.S. Senate,*
*Washington, D.C.*

DEAR FRITZ: Please forgive me for not replying promptly to your letter of January 31st. I have been away from the office quite a bit lately.

I have read the statement you made in the Congressional Record on January 28th and have looked through the tables and comments very carefully. There are several questions, one which relates to the desirability of a tax cut as compared with an increase in expenditures as a means of stimulating the economy. The second concerns the question of the kind of tax cut which will be most equitable and which would have the greatest economic impact. The third question relates to basic tax reforms and the element of progressivity. Let me take these up in some separate but related order.

I think we are definitely in a recession and I have grave doubts about the basis for believing, as many of my good friends and liberal economists believe, that the economy will pick up in the second half of the year. Maybe it will but I do not see the basis for such optimism as yet. Therefore, something ought to be done about stimulating the levels of economic activity. I personally would prefer at least some increase in expenditures for mass transit and for improved rail transit and for rapidly exploring and exploiting alternative sources of energy. I do think we could spend an awful lot of money on buses and the Federal Government could give these buses to local transit authorities on the understanding that the fares would be maintained where they are, or preferably reduced. We would be a lot better off if we subsidized bus fares and railroad cars for the transportation of coal and the like. Such expenditures could, I think, be stimulating to recovery or they would at least cushion the declines in business activity that appear to be imminent.

There are other expenditures in terms of public employment, which was the subject of proposal you submitted some weeks ago, and that would make a lot of sense.

A tax cut always worries me as a measure for stimulation of economic activity. Almost every time we get a tax cut we end up with a less progressive system. If we are going to have a general tax cut I think your proposal is excellent because it really does help the lower income groups much more than the middle or higher income groups, and that is very necessary. I know most of the people pay some income taxes but there are still quite a number at the lower levels who do not pay and they would not be benefitted. Therefore, from an equity point of view your proposal goes quite a long way but I don't think it would be quite as helpful to the really low income groups as some moderation in the payroll tax. As far as stimulating the economy is concerned, I am sure some of the tax savings which would be achieved through your measure would be spent, but we haven't much of an idea of what the marginal spending habits are going to be in a recession that is generated by shortages of an input which is as pervasive as power and fuels. It is hard for the economist to figure just how to stimulate this economy to get us back toward full employment without accelerating the rate of inflation and also with some sense of confidence that certain measures are going to really be effective. This is one of the reasons why any stimulating activity should, in my judgment, include expenditures such as mass transit because this we know would be helpful to the middle and lower income groups because it would keep their transit fares down and they do ride a great deal.

As far as alternatives in tax reductions are concerned, I still would like to see some of the reduction in the payroll taxes. In my judgment we have worshipped the concept of actuarial purity for much too long because social security really is not a true actuarial system and I think we should have had a third source of revenue in addition to the payroll taxes on employers and on employees and that the third source should be general revenues. Just to placate those who keep wrapping themselves up in the actuarial mythology, we could have general revenue contributions for cost of living adjustments and for improvement factors in social security benefits. I can't think of another tax which is as regressive as the payroll tax because the higher the income the lower the proportion subject to the payroll tax. I would love to see us put some general revenue into the reserve and reduce payroll taxes in employees by a similar amount, and that would certainly be the biggest help one could give to the lower income groups.

Again, I do like the principle you are pursuing and it certainly is one devil of a lot more equitable than raising the exemptions. I suspect what I would push for would be a part of the stimulation in the form of increases that would be spent quickly and would help the nation's economy and a part through your method and then another part in the form of reduced payroll taxes. Of course this then raises a political question as to which is the more feasible or more salable. I don't like to go for pure proposals which have no chance of achievement and I think that if the increased spending or the cut in payroll taxes were unlikely to succeed then I would go overboard on your proposal. I would at least like to see us start part way with that and part in the other direction.

I hope these observations are of some interest. If you ever have a few moments and would like to talk about them let me know and I will be glad to come down.

Best wishes.

Sincerely,

ROBERT R. NATHAN.

UNIVERSITY OF MICHIGAN,
*March 4, 1974.*

Hon. WALTER F. MONDALE,
*U.S. Senate,*
*Washington, D.C.*

DEAR FRITZ: I have your letter of February 21 concerning your Bill S. 2906 to convert the present deduction for personal exemptions to a tax credit.

I strongly support the idea of a tax credit for the personal exemptions. A tax credit is an important tax reform which should have extremely high priority.

In my opinion, the tax credit should be limited to three children and two adults. Moreover, I believe that there should be a higher credit for the first child.

These suggestions would fit very appropriately into your ideas concerning strengthening family and child life.

I do not see why we should continue to give deductions or credits for more than three children except in the case where the child was not a natural child and was adopted. I believe that it would strengthen our family planning policies to limit any tax credits normally to three children. I would, however, continue to permit credits for a natural or adopted child who was totally disabled (utilizing the definition of disability under title II of the Social Security Act) irrespective of the age of the child.

My justification for a higher amount for the first child is that this is where the major financial burden arises for a young family. In the case of the first child there is usually a need for additional space and expenditures which are somewhat less per person for the second and third child. My preference is a $300 tax credit for the first child; $200 for the second child; and $100 for the third child.

In passing, I would also like to bring to your attention that the federal matching payment to the states for dependent children under title IV of the Social Security Act has not been increased since 1965. There has been approximately a 50 percent increase in the price level since that date without any additional federal financing of the cost. I believe it is important that a cost of living adjustment be added to the program so that these children will not be penalized by inflation.

Quite frankly, I would like to see you couple these two ideas together so that families with children would be helped whether they were children in families where the parent was an earner or was on welfare. This would truly be a program that would improve family life and the welfare of children.

With best personal wishes,

Sincerely,

WILBUR J. COHEN,
*Dean.*

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ARTHUR M. OKUN,
*Washington, D.C., March 11, 1974.*

Hon. WALTER F. MONDALE,
*U.S. Senate, Washington, D.C.*

DEAR SENATOR MONDALE: In response to some questions you raised, I should like to explain my position on the general desirability of a tax cut for consumers in 1974, and my views on the particular proposal for a $200 tax credit in lieu of the usual personal exemption.

Output and employment in the U.S. economy are sagging today. Our real GNP for this quarter is registering a market decline—one of the sharpest declines in sixteen years. Many initial features of the decline—such as the collapse of new car sales—are just beginning to exert their damaging secondary effects on other industries. The outlook for consumer demand is particularly bleak, reflecting the anxieties of American families associated with the ombination of job layoffs and rapid inflation, and the drain on their budgets from food and fuel inflation. In 1974 the American consumer will be spending directly and indirectly for fuel about $20 billion more than last year to get less product. This drain on the budget is bound to have serious effects on the experience of other consumer industries—what the consumer spends on oil is not available for spending on other discretionary items ranging from movie tickets to television sets. Indeed, if the oil embargo ends and the availability of gasoline increases while its price remains high, the drain on the consumer budget will be even greater. This spending will not create jobs or output in the United States for the foreseeable future.

In view of the bleak outlook for consumer expenditures (which represent nearly two-thirds of our GNP), the prospects for an early upturn are very speculative. There is considerable risk that the sag could continue all year in the absence of policies to bolster activity. On the other hand, there is little risk of a self-generating upsurge in the economy that would make additional fiscal support inappropriate. Thus, a well-timed cut in consumer taxes would be an important insurance policy against a prolonged and sharp slide in employment and output.

According to the best historical evidence, widespread small increases in consumer take-home pay get into the spending stream. The excellent results in stimulating economic growth that followed the 1964 tax cut demonstrates that. In the present context, the provision of a consumer tax cut may help prevent the kind of retrenching in consumer living standards that might otherwise take place in response to layoffs and fuel and food inflation.

The vast bulk of the additional consumer spending will go into areas where the economy has available labor and plant capacity to meet and greet added demand. In the present situation, one can feel particularly confident that the response will increase output and employment rather than add to inflation. While a number of shortage areas remain in our economy, those except for food and fuel will be vanishing during the first half of 1974 as rapidly as they emerged during the first half of 1973. The economy's operating rates will be lower by mid-year than they were late in 1972, when lumber was the only significant product with a shortage. In the case of food, only a trivial part of additional consumer income adds to the demand for food and thus a tax cut will have virtually no effect on food prices. In the case of petroleum, the system of price controls should ensure that any increment in demand is not converted into additional inflation. Indeed, by evidencing concern and effort by the government to make up for the acute cost-of-living squeeze on the worker, a tax cut could have beneficial effects in preserving the recent moderate behavior of wages.

The best type of tax cut would put income rapidly into the hands of lower income and middle-income groups. From that point of view, the $200 credit option for the personal exemption seems ideally suited to meet the economy's needs. It could be promptly reflected in withholding schedules and would provide relief to those who have suffered most as a result of the food and fuel price explosion of the past year. By concentrating the benefits in the tax cut in income groups with marginal tax rates under 26 percent, it improves the progressivity and equity of the tax system.

I do hope that the Congress will give serious and prompt consideration to this constructive measure.

Sincerely,

ARTHUR M. OKUN.

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[From the Wall Street Journal, Mar. 11, 1974]

THE CASE FOR FISCAL STIMULUS

(By Walter W. Heller)

Once again, the battle between anti-recessionists and anti-inflationists is joined. Without differing very much on the 1974 economic scenario—downturn and double-digit inflation in the first half followed by an upturn and some ebbing of inflationary pressures in the second—the antagonists run the gamut from "ease up" to "hold tight" in their prescriptions for fiscal-monetary policy in 1974.

Part of this division reflects conflicting diagnoses of the nature of this year's recession and inflation. Partly, it grows out of divergent appraisals of how much of any given demand stimulus will translate into jobs and output and how much into more inflation (either now or later). And in no small part, it goes beyond positive economics to a conflict of values.

Nothing throws the issues into bolder relief than the proposal for a quick income tax cut in the form of an increase in personal exemption. A tax reduction of $5 billion to $6 billion a year could be effected either by boosting the per capita exemption from $750 to $900 or by adopting Senator Mondale's proposal to give the taxpayer the option of taking a $200 credit against tax or continuing to deduct $750 from income.

The equity case for this move is obvious:

Before the year is out, inflation will have eroded the real value of the $750 exemption by more than 20% since it went into effect at the beginning of 1972.

Even more important, boosting exemptions would concentrate the bulk of the tax benefits at the middle and lower end of the income scale where recent inflation, especially in the form of surging food and fuel prices, has exacted a particularly heavy toll. (To reach the lowest incomes calls for further action, e.g., a step-up in social service programs and relief from Social Security payroll taxes on the poor.)

Indeed, the social rationale for income and payroll tax relief in the lower brackets is so compelling that it would make sense even if it were matched by simultaneous tax increases elsewhere.

But equity aside, can a broad-based income tax cut stand on its economic merits? Those who say it can't—Messrs. Shultz, Burns, Feliner, McCraken and Stein somehow come to mind—cite such arguments as these:

Our current economic downturn is mainly the result of supply restraints, of shortages and bottlenecks; such demand deficiencies as exist will soon correct themselves.

Any further stimulus will simply increase the ferocity and tenacity of inflation.

Mr. Nixon's fiscal 1975 budget already contains all the stimulus the economy can stand. And besides, cutting income taxes today robs us of vital revenue-raising power we need for tomorrow.

Straw men? Hardly. But neither are they holy writ.

SOME UNMISTAKABLE SIGNS

First, as to the nature of recession. Though supply shortages get the headlines, a close look reveals unmistakable signs of a shortage of demand. The weary consumer, whiplashed by tight money and fiscal restraint and whipsawed by runaway food and fuel prices, has pulled in his horns:

For nearly a year, his consumption of durables other than autos has fallen in real terms, while his consumption of non-durables and services has kept only a trifle ahead of inflation.

As to autos, the gasoline shortage has converted an expected decline into an actual disaster. Lying behind the 27% drop in overall sales of domestic cars last month was a plunge of nearly 50% in demand for standard and larger models.

Tight money has cut the rate of residential construction outlays from $60 billion a year ago to around $47 billion today.

For consumers, January was perhaps the cruelest month. While personal income dropped $4 billion, consumer prices raced upward at a 12% annual rate. Real spendable earnings of non-farm workers, after taxes, were down 4% from a year earlier, the largest drop in 10 years.

Nor is any early rebound in sight. It will be months before exploding oil prices have worked their way through the economy, soaking up a $15 billion to $20 billion of consumer purchasing power in the process. For that's the amount of tribute the American consumer has to pay foreign and domestic producers of oil—and in the shortrun, very little of the funds thus siphoned off will reappear in the economy as demand for exports or increased dividends and capital spending by the U.S. oil industry. So even with an end to the Arab embargo, the U.S. economy will continue to suffer the paradox of "oil drag"—a cost-inflation of prices and a tax-like deflation of demand.

Contrary to the Alice-in-Wonderland reasoning in Mr. Nixon's veto message on the energy bill, a rollback in domestic crude oil prices could materially ease that drag. For example, a cutback in new oil prices to $8 and old oil prices to $4.25 (as against $7.09 and $5.25 in the energy bill), while maintaining strong incentives for boosting output of new oil and oil substitutes, would serve to:

Cut oil-cost inflation by $5 billion.

Restore $5 billion of real purchasing power to consumers.

Stop that amount of excess profits at the source.

It isn't often that a single measure promises to cut cost inflation, bolster aggregate demand, curb profiteering, and still maintain vital incentives. Yet doctrinaire pursuit of market ideology coupled with a paralyzing fear of further inflation seems to be blinding policy makers to the opportunities for simultaneously serving different objectives of policy. Not all demand stimulants aggravate inflation on net balance.

That brings us to the second major charge against the proposed tax relief, namely, that much or even most of it will run off into added inflation. No one can deny that added dollars in consumers' hands will elicit some price increases.

But in 1974, a year in which deficient demand will persist even after recovery replaces recession, the trade-off will be highly favorable. Consider the nature of today's inflation:

Above all, it reflects price pressures born of the food and fuel shortages of yesteryear which, as Arthur Burns cogently pointed out last fall, "hardly represent either the basic trend in prices or the response of prices to previous monetary or fiscal policies." After this year, those pressures will begin to burn themselves out, leaving a legacy of high but less rapidly rising prices.

In part, it is a lagged response to the boom in world commodity prices in general. And these pressures too will ebb even as demand recovers, much as they did after the price explosion set off by the Korean boom in 1951.

Further, it is a result of a sharp rise in unit labor costs, which moved ahead at a 9% annual rate in the last quarter of 1973 and will get worse in recession before getting better in recovery.

Upward price adjustments as industries are freed from controls will also give inflation a jolt, largely a one-shot phenomenon.

In other words, inflation in 1974 has a life of its own, nourished not by excess demand but mainly by a variety of cost factors beyond the reach of fiscal and monetary management. The great bulk of the stimulus of a prompt tax cut would therefore express itself in higher output, jobs, and income, not in higher prices.

It can be argued—indeed, George Perry of Brookings has argued—that a well-tempered tax cut can help relieve cost-push pressure by redressing labor's cost-of-living grievances in part through tax relief rather than wage escalation. Labor leaders keep an eye closely cocked on that critical barometer, "real spendable earnings *after* taxes." Cut income and payroll taxes and real earnings rise. If a fiscal bargain could be struck with labor to substitute this paycheck sweetener in part for wage hikes, less of the 1973–74 food and fuel price upsurge will be built into wage bargains.

But what about the legacy of a weakened tax system in 1975 and later years? Won't the inflationary chickens come home to roost? Not if responsive fiscal and monetary policies head off renewed excess demand when it again threatens the economy.

For that matter, the Congress should build in a large part of the protection by coupling its exemption boost with a firm commitment to enact compensating revenue-raising tax reforms to become effective in and beyond 1975. The necessary funds could be raised simply by a substantial hike in the minimum tax plus a phasing out of most of the tax shelters for petroleum as oil price curbs are progressively relaxed. (It is worth noting that with appropriate pricing policies, one can both avoid punitive excess profits taxes and phase out the distorting and inequitable tax preferences for petroleum—thus serving both equity and efficiency.)

### THE THIRD QUESTION

But one still has to confront the third question: Isn't Mr. Nixon's new budget already offering plenty of stimulus to a sagging economy? And besides, shouldn't we be reassured by Mr. Ash's promise to "bust the budget" if Mr. Nixon's exercise in exorcism fails and the economy is by recession repossessed? The answer is "no" on both counts.

True, the fiscal 1975 budget gives the *appearance* of stimulus. Spending is scheduled to rise $30 billion, and the deficit to double from $4.7 billion to $9.4 billion. But as this most realistic of Mr. Nixon's budget messages makes clear, "the recommended budget totals continue [the] policy of fiscal restraint as part of a continuing anti-inflation program." Indeed, the unified budget surplus on a full-employment basis would rise from $4 billion to $8 billion.

On a national income accounts basis, the rise in the full-employment surplus would be even greater. Even without fully acceping the St. Louis Federal Reserve Bank numbers showing a rise in the full-employment surplus from a rate of $2 billion in the first half of 1974 to nearly $13 billion in the first half of 1975, and even allowing for the inevitable slippage in the budget process, one can safely conclude that the fiscal 1975 budget, contrary to surface appearances, offers no substantial stimulus to the economy.

But what of the assurances that contingency plans will be rolled out to step up spending in case recession rears its ugly head? Given the typical lags in policy action and economic reaction, one can only say that the time to act is now. When a man is drowning, one should not deny him a life preserver on grounds that one can always resort to mouth-to-mouth resuscitation.

[From the Washington Post, Mar. 10, 1974]

## RECESSION CHARADE

President Nixon keeps reiterating, in his stubborn way, that "there will not be a recession in 1974," as if the repetition of that hopeful thought will, like magic, wash all the nation's economic troubles away.

The hard fact is that the economy is suffering a contradiction which is clearly evident in rising unemployment, lower factory output and rising prices. Whether, in the end, it qualifies for the technical definition of a recession is not much of a point.

However, many reputable economists believe that the nation is alreday in at least the third month of a recession which will lower real gross national product for the first half of 1974.

A survey of 62 leading forecasters, as reported in the Washington Post Friday, sees at least a mild decline in real GNP for the first half of 1974. The Wharton School, and Prof. Otto Eckstein's Data Resources Institute, among others, see a somewhat sharper dip, with inflation a serious problem.

The more serious fall-off could arise if the first-quarter side reaches the annual rate of 3 to 4 percent now considered possible by statisticians within the Nixon administration itself, as was reported in this space last week.

The recession charade Mr. Nixon has been playing could be ignored as the natural reflex of a politician already in deep trouble if it did not imply the absence of a program to contain the damage.

By saying that there will be no recession, that, if everyone is patient, food and fuel prices will come down, leading to a recovery by the end of 1974, Mr. Nixon is also saying that his government isn't called on to take positive steps to stimulate the economy.

Economic Council Chairman Herbert Stein, a perennial optimist, reassured the Governors' Conference here the other day that although, there is "no prospect of instant relief" from unemployment and inflation problems, there will be "a strong revival" around mid-year.

Stein expects a resurgence of auto sales, a "clarification" of the gasoline situation, a gain in new housing starts, a strong expansion of private capital investment, and boosted federal, state and local spending.

In an interview with The Washington Post, Treasury Secretary George Shultz adds that he expects a break in inflated world commodity market prices, and counts once again on the maturity of union leadership to keep wages from going through the roof.

A series of questions put to Stein at the Governors' Conference indicates that the chief executives of the states are much more concerned about inflation, fuel allocation problems, oil company profits, and high unemployment than the government here in Washington appears to be.

The problem with the Stein-Shultz analysis—on which Mr. Nixon bases his "no-recession" promise—is that it is predicated on getting all the breaks in a very uncertain and unstable world.

Not the least of current anxieties relates to the continuing Watergate mess. Although they know that an impeachment process would be a traumatic experience for the nation, big businessmen (Republicans as well as Democrats) now say openly that the best course now would be an impeachment proceeding that will settle the issue as quickly as possible.

Avoiding a significant recession will require good and plentiful crops to hold down food prices, the absence of a protracted decline in the rest of the industrialized countries, a reduction in the extortionate oil prices set by the cartel, a rapid conversion of the auto industry to smaller cars, assurance of steady gasoline supplies so that consumers are willing to buy cars, a good flow of funds to the savings institutions that finance private housing, a reduction of general inflationary pressures which already have reached the highest levels since the first World War, actual wage settlements which do not generate a new wage-price push and, above all, a reversal of consumer uneasiness about the health of the economy which will make them spenders instead of savers.

And beyond that, it will require an active federal government policy designed to give the economy a well-timed monetary and fiscal push.

But as Stein indicated, the administration will be cautious about "pumping up the economy" too far. To Republican Gov. Jack Williams of Arizona, worried about rising unemployment, Stein said that "we must endure a period of restraint in our ambitions" to cutback the jobless rate because inflation is such an overwhelming problem.

The contrary point of view was presented by Arthur Okun, former chairman of the Johnson Council of Economic Advisers. Okun, who believes we are several months into a real recession, told the governors that counter-recession moves should be made now, even though he agrees that the economic slide will be modest, rather than 1930s style.

Okun would roll back domestic crude oil prices which, along with other inflated prices, "have been draining some $20 billion from consumer budgets." He also would cut income and payroll taxes in a way designed to benefit lower- and middle-income groups by $5 billion to $6 billion a year. Sen Edward F. Kennedy (D-Mass.) and Walter F. Mondale (D-Minn.), among others, have proposed legislation along such lines.

"The time to act is now," Okun says. "A little preventive medicine would go a long way."

Nixon, Shultz and Stein aren't convinced. They fear an oil price rollback would be costly in the long run, and argue that a tax cut should be the last medicine to be prescribed. But if the economists' reading as shown by the ASA poll turns out to be right, tax cutting may gain a popularity that crosses party lines by ~~mid~~-summer.

EXHIBIT 1

EXHIBIT 1

THE BROOKINGS INSTITUTION,
ECONOMIC STUDIES PROGRAM,
*Washington, D.C., February 28, 1974.*

Hon. WALTER F. MONDALE,
*U.S. Senate,*
*Washington, D.C.*

DEAR FRITZ: In response to your recent request, I have examined the revenue loss and distributional impact of our alternative tax credit or exemption reform plans, including your proposal. The findings are summarized in the five tables accompanying this letter. The revenue estimates are based on a projection to the years 1974 and 1975 of data in the Brookings 1970 federal income tax file.

Plan I in the enclosed table, which is provided for comparison purposes, is present law (that is, $750 per capita exemption plus the $1,300 low-income allowance). Plan II is your proposal to offer a $200 tax credit in lieu of the usual personal exemption. Plan III would raise the personal exemption to $850 in 1974 and $900 in 1975 and later years. Plan IV, which would reduce revenues by as much as Plan II, would maintain the current $750 exemption and had an across-the-board tax credit of $22 in 1974 and $33 in 1975 and later years. Plan V would raise the low income allowance to $1,400 and personal exemptions to $850 in 1974, and to $1,500 and $900, respectively, in 1975.

Table 1 compares each plan with estimated poverty levels for 1974 and 1975. The results indicate that Plan V is the most successful in approximating the poverty levels for 1974 and 1975 if the poverty lines are assumed to be the standard. Plan II would be excessively generous in raising the minimum taxable levels (particularly for large families). Plans III and IV are much closer to the poverty levels than Plan II, but they do not do nearly as well as Plan V.

The revenue loss under the various proposals and their distributions by income levels are given in Tables 2–5. All of the plans concentrate the tax deductions largely in the adjusted gross incomes below $25,000. Under Plan II, however, over one-half of the 1974 tax reduction accrues to persons with incomes below $10,000 and almost all of the deduction goes to taxpayers with incomes below $25,000. At the other end (though the distance is not very far) only about one-quarter of the 1974 tax reduction under Plan III accrues to the under $10,000 group and over 80 percent goes to taxpayers with AGI below $25,000. Plan IV is more nearly similar to Plan II in its distributional effect, while Plan V is more nearly similar to Plan III.

On balance, my preference is for Plan V which approximates the 1974 and 1975 poverty lines most closely, but I am sure that judgments will differ on the relative merits of the various approaches.

Sincerely,

JOSEPH A. PECHMAN,
*Director of Economic Studies.*

PS.—These calculations were supported by a grant from the RANN program of the National Science Foundation.

TABLE 1.—LEVEL AT WHICH INCOME BECOMES TAXABLE UNDER VARIOUS EXEMPTION AND TAX CREDIT PLANS COMPARED WITH POVERTY LEVELS IN 1974 AND 1975[1]

| Family size | Projected poverty level budget[2] | Plan I[3] (present law) | | Plan II[4] | | Plan III[5] | | Plan IV[6] | | Plan V[7] | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Income level | Difference | Income level | Difference | Income level | Difference | Income level | Difference | Income level | Difference |
| 1974: | | | | | | | | | | | |
| 1 | $2,409 | $2,050 | −$359 | $2,644 | +$235 | $2,150 | −$259 | $2,207 | −$202 | $2,250 | −$159 |
| 2 | 3,101 | 2,800 | −301 | 3,988 | +887 | 3,000 | −101 | 2,957 | −144 | 3,100 | −1 |
| 3 | 3,807 | 3,550 | −257 | 5,182 | +1,375 | 3,850 | +43 | 3,707 | −100 | 3,950 | +143 |
| 4 | 4,871 | 4,300 | −571 | 6,247 | +1,376 | 4,700 | −171 | 4,457 | −414 | 4,800 | −71 |
| 5 | 5,748 | 5,050 | −698 | 7,300 | +1,552 | 5,550 | −198 | 5,207 | −541 | 5,650 | −98 |
| 6 | 6,461 | 5,800 | −661 | 8,353 | +1,892 | 6,400 | −61 | 5,957 | −504 | 6,500 | +39 |
| 1975: | | | | | | | | | | | |
| 1 | 2,554 | 2,050 | −504 | 2,644 | +90 | 2,200 | −354 | 2,286 | −268 | 2,400 | −154 |
| 2 | 3,287 | 2,800 | −487 | 3,988 | +701 | 3,100 | −187 | 3,036 | −251 | 3,300 | +13 |
| 3 | 4,035 | 3,550 | −485 | 5,182 | +1,147 | 4,000 | −35 | 3,786 | −249 | 4,200 | +165 |
| 4 | 5,163 | 4,300 | −863 | 6,247 | +1,084 | 4,900 | −263 | 4,536 | −627 | 5,100 | −63 |
| 5 | 6,093 | 5,050 | −1,043 | 7,300 | +1,207 | 5,800 | −293 | 5,286 | −807 | 6,000 | −93 |
| 6 | 6,849 | 5,800 | −1,049 | 8,353 | +1,504 | 6,700 | −149 | 6,036 | −813 | 6,900 | +51 |

[1] Assumes joint returns are filed by families of 2 or more persons.
[2] Projected from the official poverty lines for 1972 on the basis of the actual increase in the Consumer Price Index from 1972 to 1973 and assumed increases of 8 percent for 1973–74 and 6 percent for 1974–75.
[3] Plan I: Present law (i.e., $750 exemption and $1,300 low-income allowance).
[4] Plan II: Option to elect either a $200 credit for each exemption or $750 exemption, whichever yields the lower tax.
[5] Plan III: $850 personal exemption for 1974, $900 for 1975.
[6] Plan IV: For 1974: $22 credit, which has the same revenue effect as an $850 exemption for 1975: a $33 credit, which has the same revenue effect as a $900 exemption.
[7] Plan V: For 1974: low income allowance of $1,400 and personal exemption of $850; for 1975: low income allowance of $1,500 and personal exemption of $900.

TABLE 2.—TAX REDUCTION UNDER PLAN II: OPTION TO ELECT EITHER A $200 TAX CREDIT OR A $750 EXEMPTION, WHICHEVER PRODUCES THE LOWER TAX

| Adjusted gross income class | 1974 | | | 1975 | | |
|---|---|---|---|---|---|---|
| | Number of returns (thousands) | Tax reduction due to plan (millions) | Distribution of reduction (percent of total reduction) | Number of returns (thousands) | Tax reduction due to plan (millions) | Distribution of reduction (percent of total reduction) |
| Less than 0 | 392.6 | | | 393.7 | | |
| 0 to $5,000 | 22,198.9 | $718.4 | 12.2 | 21,189.8 | $702.9 | 12.4 |
| $5,000 to $10,000 | 18,794.5 | 2,304.0 | 39.1 | 18,393.8 | 2,198.6 | 38.8 |
| $10,000 to $15,000 | 16,532.0 | 2,113.8 | 35.9 | 15,474.0 | 1,916.2 | 33.9 |
| $15,000 to $20,000 | 9,773.1 | 684.1 | 11.6 | 10,783.0 | 747.4 | 13.2 |
| $20,000 to $25,000 | 4,807.1 | 58.7 | 1.0 | 5,823.8 | 90.2 | 1.6 |
| $25,000 to $50,000 | 4,279.1 | 6.4 | .1 | 5,439.7 | 5.0 | .1 |
| $50,000 and over | 863.9 | .2 | 0 | 997.4 | .2 | 0 |
| Total | 77,641.3 | 5,885.6 | 100.0 | 78,495.3 | 5,660.6 | 100.0 |

TABLE 3.—TAX REDUCTION UNDER PLAN III: $850 PERSONAL EXEMPTION IN 1974, $900 IN 1975

| Adjusted gross income class | 1974 | | | 1975 | | |
|---|---|---|---|---|---|---|
| | Number of returns (thousands) | Tax reduction due to plan (millions) | Distribution of reduction (percent of total reduction) | Number of returns (thousands) | Tax reduction due to plan (millions) | Distribution of reduction (percent of total reduction) |
| Less than 0 | 392.6 | | | 393.7 | | |
| 0 to $5,000 | 22,198.9 | $207.2 | 5.2 | 21,189.8 | $296.8 | 4.7 |
| $5,000 to $10,000 | 18,794.5 | 792.3 | 19.9 | 18,393.8 | 1,132.0 | 18.1 |
| $10,000 to $15,000 | 16,532.0 | 1,051.4 | 26.4 | 15,474.0 | 1,440.6 | 23.0 |
| $15,000 to $20,000 | 9,773.1 | 789.9 | 19.9 | 10,783.0 | 1,284.6 | 20.5 |
| $20,000 to $25,000 | 4,807.1 | 448.5 | 11.3 | 5,823.8 | 819.1 | 13.1 |
| $25,000 to $50,000 | 4,279.1 | 516.6 | 13.0 | 5,439.7 | 980.4 | 15.7 |
| $50,000 and over | 863.9 | 172.1 | 4.3 | 997.4 | 299.5 | 4.8 |
| Total | 77,641.3 | 3,978.0 | 100.0 | 79,495.3 | 6,253.1 | 100.0 |

TABLE 4.—TAX REDUCTION UNDER PLAN IV: $22 CREDIT IN 1974, $33 IN 1975

| Adjusted gross income class | 1974 | | | 1975 | | |
|---|---|---|---|---|---|---|
| | Number of returns (thousands) | Tax reduction due to plan (millions) | Distribution of reduction (percent of total reduction) | Number of returns (thousands) | Tax reduction due ot plan (millions) | Distribution of reduction (percent of total reduction) |
| Less than 0 | 392.6 | | | 393.7 | | |
| 0 to $5,000 | 22,198.9 | $285.8 | 7.2 | 21,189.8 | $404.8 | 6.6 |
| $5,000 to $10,000 | 18,794.5 | 982.4 | 24.6 | 18,393.8 | 1,386.8 | 22.7 |
| $10,000 to $15,000 | 16,532.0 | 1,157.6 | 29.0 | 15,474.0 | 1,588.5 | 26.0 |
| $15,000 to $20,000 | 9,773.1 | 762.3 | 19.1 | 10,783.0 | 1,245.0 | 20.4 |
| $20,000 to $25,000 | 4,807.1 | 330.1 | 9.5 | 5,823.8 | 700.9 | 11.5 |
| $25,000 to $50,000 | 4,279.1 | 346.1 | 8.7 | 5,439.7 | 656.5 | 10.7 |
| $50,000 and over | 863.9 | 72.7 | 1.8 | 997.4 | 126.0 | 2.1 |
| Total | 77,641.3 | 3,987.0 | 100.0 | 78,495.3 | 6,108.6 | 100.0 |

TABLE 5.—TAX REDUCTION UNDER PLAN V: LOW INCOME ALLOWANCE OF $1,400, PERSONAL EXEMPTION OF $850 IN 1974; LOW INCOME ALLOWANCE OF $1,500, PERSONAL EXEMPTION OF $900 IN 1975

| Adjusted gross income class | 1974 Number of returns (thousands) | 1974 Tax reduction due to plan (millions) | 1974 Distribution of reduction (percent of total reduction) | 1975 Number of returns (thousands) | 1975 Tax reduction due ot plan (millions) | 1975 Distribution of reduction (percent of total reduction) |
|---|---|---|---|---|---|---|
| Less than 0 | 392.6 | | | 393.7 | | |
| 0 to $5,000 | 22,198.9 | $330.4 | 7.7 | 21,189.8 | $530.3 | 7.7 |
| $5,000 to $10,000 | 18,794.5 | 973.6 | 22.7 | 18,393.8 | 1,504.6 | 21.9 |
| $10,000 to $15,000 | 16,532.0 | 1,051.4 | 24.6 | 15,474.0 | 1,440.6 | 21.0 |
| $15,000 to $20,000 | 9,773.1 | 789.9 | 18.4 | 10,783.0 | 1,284.6 | 18.7 |
| $20,000 to $25,000 | 4,807.1 | 448.5 | 10.5 | 5,823.8 | 819.1 | 11.9 |
| $25,000 to $50,000 | 4,279.1 | 516.6 | 12.1 | 5,439.7 | 980.4 | 14.3 |
| $50,000 and over | 863.9 | 172.1 | 4.0 | 997.4 | 299.5 | 4.4 |
| Total | 77,641.3 | 4,282.5 | 100.0 | 78,495.3 | 6,859.1 | 100.0 |

Senator TALMADGE. Has Senator Kennedy arrived yet?

The committee is honored to have one of our distinguished colleagues from the Senate, the Honorable Edward M. Kennedy, from Massachusetts. We are honored to have you, Senator, and if you desire to do so, you may insert your full statement in the record, and summarize it as you see fit.

## STATEMENT OF HON. EDWARD M. KENNEDY, U.S. SENATOR FROM THE STATE OF MASSACHUSETTS

Senator KENNEDY. Thank you very much, Mr. Chairman.

I want to thank the chairman of the committee, Senator Long, for holding these hearings, and I also thank you, Senator Talmadge, for chairing them. I think these are extremely important hearings this morning, and I am very hopeful that we will have expeditious action on the proposals before this committee to stimulate the economy at this time of very serious danger of recession.

Mr. Chairman, I would like to summarize my statement, if I may.

Senator TALMADGE. Certainly.

Senator KENNEDY. And put the whole statement in the record.

Senator TALMADGE. Without objection, it is so ordered.

Senator KENNEDY. In assessing the need for tax relief, the place to begin is with the administration's record. This committee is well aware of the Nation's turbulent and disappointing economic history over the past 5 years:

The worst unemployment in a decade; the worst inflation since the Korean war; the worst budget deficit since World War II; the highest interest rates since the Civil War; the worst trade deficits in our history; the steepest plunge of the Dow-Jones average since the Depression; constant international monetary tension; a hat trick of three successive devaluations of the dollar; and on-again, off-again wage-price freezes and controls.

And, finally, a Nixon recession in 1970; and now a second Nixon recession on the horizon in 1974, America's sixth recession since World War II, unless we mend our ways in time.

Many commodities are in short supply today, but the commodity in shortest supply is foresight and economic leadership. Not since the beginning of the Depression has the American economy been in the grip of such a determined hands-off, do-nothing, wait-and-see school of economic policy.

The administration has all the tools it needs to keep the modern American economy on an even keel. All it has to do is use them.

In essence, the economic case for tax relief rests on several foundations:

First, there is little doubt that the economy is now in a recession situation. Virtually, every responsible economist predicts a recession for the first half of 1974, and no amount of administration rhetoric can define the facts away or deny the early warning signals, such as declining auto sales and housing starts, the likelihood of zero growth, or worse, in the current quarter, the excessively restrictive $8 billion full employment budget surplus for the coming fiscal year proposed by the administration, and the third straight monthly decline in industrial production.

The figures on unemployment tell the same story. The rise from 4.6 in October to 5.2 in January, was a sharp increase of 13 percent, and the experts are forecasting 6 percent or higher unemployment by June, a level likely to last through the remainder of the year. Each tenth of a percent increase in unemployment means 100,000 workers have lost their jobs. Each increase of 1 percent means a million citizens out of work and on the streets. And, worst of all, the soaring cost of food and fuel is now taking money out of the pockets of consumers at the astonishing rate of $30 and $40 billion addtional per year.

I want to support the further point that was made by Senator Mondale. It is my belief, and I think it is the belief of the overwhelming majority of the American economists, that with the tens of billions of dollars being drained from the pockets of consumers by the rising price of food and fuel, are the equivalent of a Federal tax increase.

No economist in this country is advocating a direct tax increase. Why are we willing to accept an indirect tax increase through the cost of food and fuel? Many of us believe that it is necessary, if we are going to avoid a recession at this time, that we take the steps which we are advocating this morning to provide some tax relief, and to blunt the impact of this de facto tax on food and fuel.

Senator Mondale. Would the Senator yield there?

I do not know whether you were here during Secretary Shultz's testimony, or for all of it, but he repeatedly kept coming back to the unemployment insurance as the answer. And when you realize that the official budget of this administration describes itself as restrictive; in other words, it is leading toward unemployment, I think it is the deliberate policy of this administration to encourage unemployment for the purpose of so-called restraining of the economy. Do you see that as, unemployment insurance as a decent answer to America's problems?

Senator KENNEDY. Well, of course it is not, as you well know, Senator. It's too little and too late. The effects of the mismanagement of the economy are obvious in the very significant increase in unemployment, and the band-aid approach on unemployment insurance is not going to solve the problem. We need to help the unemployed, but our first responsibility is to see that we stop even more people from being forced to join the ranks of the unemployed. Let's use a little foresight for a change, instead of wating for the problem to become a crisis.

Mr. Chairman, there is an additional anti-inflation argument that justifies tax relief at this time. It is well-known that 1974 will be a crucial year in the fight against inflation, because of the major collective bargaining negotiations scheduled for this year. By providing some kind of tax relief for blue-collar workers and those in the low- or middle-income group, we can ease the pressure for wage increases. Part of cost-of-living increases to which workers are obviously entitled can be provided through the tax system, instead of through the collective bargaining system.

Also, a tax cut to stimulate the economy is amply justified on an entirely separate ground, the ground of equity. It is the most effective step we can take today to bring relief to taxpayers hard pressed by the growing burden of inflation. The approach that I favor consists in part of increasing the personal tax exemption, from $750 to $850. If you look at what has happened to the purchasing power of individuals from the last increase in the personal exemption in 1972, the cost of living has gone up by approximately 13 percent, which is the same increase I am proposing in the personal exemption. In this way, we can provide relief to all taxpayers from the growing burden of inflation.

I would like to turn briefly now to the form that the tax relief should take. Among those who favor a tax reduction, there is a broad agreement that a stimulus in the amount of about $6 billion in the current year would be appropriate. But there is less agreement on the form that the tax relief should take.

The members of this committee are familiar with the adoption of the amendment which I offered last January, which was accepted by a 53–27 vote on the Senate floor, the increase in personal income tax exemption to $850 from $750. If that amendment had actually become law, it would have provided a stimulus at the time we need it, which is now.

This past action by the Senate underscores the importance of these hearings and, hopefully, of quick action by this committee. No matter what form the action takes, whether it is the Mondale approach in terms of a tax credit, or the personal exemption, or other methods, such as the Mathias approach to reduce the amount of overwithholding, which Secretary Shultz seems to support, or Senator Long's approach of a $25 tax credit—I think it is essential that we get some action in the very near future, if we are serious about preventing a recession.

Each method of tax relief has different factors which commend themselves. The tax credit is more targeted to low-income groups and large families. The personal exemption is perhaps the least controversial means of providing some degree of tax relief for all individuals. It is not seriously regressive, since 80 percent of the benefits will go to persons earning $20,000 a year or less.

It is my belief that lter in this session, we are going to have an opportunity to consider a broad range of tax reforms, and to reexamine the structure of the tax laws and the balance between credits and deductions.

But we must act sooner than that on tax relief, if it is to do the economy any good.

I am hopeful that in the next few weeks, we can enact a stimulus which the economy demands.

I am grateful to the committee for being able to appear here this morning.

Senator TALMADGE. I thank you for your excellent testimony, Senator Kennedy.

As I understand it, the basic thrust of your amendment is to reduce taxes on low-income people to increase purchasing power and thus stimulate the economy?

Senator KENNEDY. The Senator is correct, although I think the thrust of the amendment is to provide across-the-board relief. It is not directly targeted on any particular income group. I choose the exemption because I believe it is the form of tax relief that is most widely understood and is therefore most capable of prompt enactment.

To target the relief more closely to low-income groups, the exemption could be coupled with an increase in the low-income allowance, as I indicate in my statement. I think that this is the best combination. The increase in the personal exemption would mean only $3.5 billion in tax relief, and the remainder of the stimulus could be made up by an increase in the low-income allowance.

Senator TALMADGE. You are recommending only an increase in the personal exemption from $750 to $850, or do you recommend a combination of the two?

Senator KENNEDY. I think if it is the judgment of this committee that in terms of the economic stimulus it should be as high as $6 billion, and if it is the judgment of the committee to provide additional relief to low-income groups, then a natural combination would be to increase both the personal exemption and the low income allowances. This would guarantee some relief to all taxpayers, and extra relief to low income groups.

Senator TALMADGE. Now a large deficit is already projected for the budget. Would you simply add this to the budgetary deficit or would you recommend some means to recoup that lost revenue?

Senator KENNEDY. We need the deficit now to stimulate the economy, and we should make up the deficit later through tax reform. The day that I offered the amendment to increase the personal exemption, last January, I also offered an amendment to increase the minimum tax. We had debated a similar amendment in July of last year. It failed by two votes. It failed again on the floor in November, but it was finally accepted in January by a wide margin. And it would have provided significant offsetting revenue.

Senator TALMADGE. How much revenue would that raise?

Senator KENNEDY. It would have raised approximately $900 million. That is not a complete offset, but it is an important step forward.

Also, in the energy bill that is now coming out of the House Ways and Means Committee, we will be afforded an opportunity for tax reform, and I hope we can achieve some offset with that. I hope that the tax reform will be one of the major Senate debates this year.

And then, finally, I would agree with the testimony of the economic experts that with the stimulation in the economy by tax relief, we will provide additional revenue increases to make up for the revenue loss. Certainly, if the recession gets worse, revenues are going to drop far more than the $6 billion involved in the tax relief I am proposing.

Senator TALMADGE. Thank you, Senator Kennedy.

Senator Mondale?

Senator MONDALE. I think there is another reason why this tax relief is so important and, that is, as I go around I find Americans really sickened by this spectacle of very wealthy Americans escaping entirely tax-free. The latest figures show that in 1972 there were over 400 Americans who earned more than $100,000 a year, 4 of them more than $1 million, who paid not a penny of taxes. And I think that this relief would help restore some faith on the part of the average American towards their own Government.

Senator KENNEDY. I certainly agree with you, Senator. Families all over this country are paying a fuel tax and a food tax because of rising prices. The type of relief that is being considered by the committee would provide immediate relief and equity to the people who have been paying these unfair taxes. One of the highest orders of priority this year is the kind of comprehension of reform that I know you feel strongly about. I share that strong sense of urgency about tax reform.

We hear it said that the issue was raised during the 1972 campaign, but that people are not really serious about it now. But you and I are serious about it, and I think a number of our colleagues are serious about it. I would certaintly hope this would be the year for tax reform, tax equity, and tax justice. The inequities of the current tax system have been dramatically posed for the American people by the President's tax returns.

Senator TALMADGE. Thank you very much, Senator Kennedy.

We appreciate your appearing before our committee.

[The prepared statement of Senator Kennedy follows. Hearing continues on page 69.]

PREPARED TESTIMONY OF EDWARD M. KENNEDY, A U.S. SENATOR FROM THE STATE OF MASSACHUSETTS

TAX CUT TO STIMULATE THE ECONOMY

Mr. Chairman, it's a special privilege to appear here this morning to testify at these important hearings. It is not too much to say that the health of the national economy for the remainder of 1974 may well hang on the outcome of these hearings.

For that reason, the principal portion of my statement this morning is devoted to the case for an immediate fiscal stimulus to the economy through an across-the-board tax cut, as the only feasible method of giving the economy the shot in the arm needed now to avoid a recession in 1974, or at least to alleviate the most serious consequences of a recession. At the end of my statement, I shall deal with various possible approaches to the form of tax relief that Congress could adopt to achieve the needed stimulus.

TAX RELIEF TO STOP RECESSION

In assessing the need for tax relief to stop recession, the place to begin is with the Administration's track record.

This Committee is well aware of the nation's turbulent and disappointing economic history over the past five years:

The worst unemployment in a decade.

The worst inflation since the Korean War.

The worst budget deficits since World War II.

The highest interest rates since the Civil War.

The worst trade deficits in our history.

The steepest plunge of the Dow-Jones average since the Depression.

Constant international monetary tension, and a hat trick of three successive devaluations of the dollar.

On-again, off-again wage-price freezes and controls, launched with an eye on the 1972 election, then abandoned prematurely as soon as the election results were safely in, then belatedly reinstated in 1973 after the economy had spun out of control again.

And, finally, a Nixon recession in 1970, and now a second Nixon recession on the horizon in 1974. America's sixth recession since World War II, unless we mend our ways in time.

Many commodities are in short supply today, but the commodity in shortest supply is foresight and economic leadership. Not since the beginning of the Depression has the American economy been in the grip of such a determined Hands-Off, Do-Nothing, Wait-and-See School of Economic Policy.

The Administration has all the tools it needs to keep the modern American economy on an even keel. All it has to do is use them, and the way to begin is with immediate tax relief.

In essence, the economic case for tax relief rests on five principal foundations:

*First*, there is little doubt that the economy is now in a recession situation. Virtually every responsible economist predicts a recession for the first half of 1974, and no amount of Administration rhetoric can define the facts away or deny the early warning signals:

Auto sales and housing starts are leading the downward plunge.

Annual real growth in GNP dropped precipitously, from well over 3% in the third quarter of 1973 to barely 1% in the fourth quarter, and the likelihood is that growth is now zero or even worse in the current quarter of 1974.

The Administration's $8 billion full employment budget surplus for the coming fiscal year maintains an ostrichlike posture of excessive fiscal restraint that is compounding the danger of recession instead of trying to avoid it.

Two weeks ago, we learned that the widely respected Wharton Econometric Model of the economy, prepared at the University of Pennsylvania, is predicting negative growth of 3% for the first half of 1974, an ominous forecast that America is already in a real recession.

Over the past weekend, we learned from the Federal Reserve Board that U.S. industrial production dropped 0.6% in February, the third straight month the figure has declined. More ominous, the decline affected a number of different areas of the economy, indicating that the energy-induced outbacks in the auto industry are now rippling through many other business sectors.

The figures on unemployment tell the same story. The rise from 4.6% in October to 5.2% in January is an increase of 13%, and experts are forecasting 6% or higher unemployment by June, a level likely to last through the remainder of the year.

Predictably, as they have done thousands of times on hundreds of statistics over the past five years, the Administration economists saw light at the end of the unemployment tunnel in the recent figure that showed unemployment for February was still at 5.2%, unchanged over January. Far more likely, however, the current level is just a pause after the rapid spurt to 5.2% in January, not a significant break in the march to 6% by June.

Each 0.1% increase in unemployment means a hundred thousand workers have lost their jobs. Each increase of 1% means a million citizens out of work and on the street. How can we stand by unconcerned, when hundreds of thousands of workers are being laid off, and when millions more are newly worried about their jobs and about their family's future?

Worst of all, the soaring cost of food and fuel is now taking money out of the pockets of consumers at the astonishing rate of 30 to 40 billion additional dollars a year. These increased prices are draining away money that consumers were spending on other products. Inevitably, as the figures are now beginning to show, the drain is being felt in many other areas of the economy.

No responsible expert is calling for a Federal tax increase today. Yet, in economic terms, the soaring cost of food and fuel is equivalent to a Federal tax increase of $20–30 billion, the amount of the food and energy price increases that do not find their way back into the economy in any reasonably rapid way.

In many respects, the increased fuel prices are worse than a Federal tax increase, because a large part of the funds are not even going into the Treasury of the United States—they are being siphoned out of American pockets and into the treasuries of foreign nations.

The problem of energy prices is especially urgent now, in the wake of the President's veto of the Emergency Energy Act and his "Let them eat cake" refusal to accept a price roll back. Certainly, it would be foolish to pin our hopes against recession on the faint possibility of a price roll back by the Arab nations.

If the current "oil tax" is not offset by prompt measures of our own to redress the distorted balance in consumer purchasing power, oil prices by themselves may drag the economy into a recession.

Think of the consequences if we fail to act in time. We have a 1.3 trillion dollar economy today, capable to reasonable growth at an annual rate of 4%. That's about $50 billion a year in increased output for the economy, just from normal growth.

But a recession means zero growth, the loss of the vast potential of which the economy is capable if we keep it running smoothly. By failing to take a stitch in time today, we risk the loss of twelve billion dollars in economic growth for every quarter of zero growth today.

And those losses will be felt across the board—by business as well as labor, by housewives and consumers. All will suffer, if we fail to do our job today.

I say, even a single quarter of a recession is too much. Why does the Administration have to wait until the economy starts to bleed to death before it is willing to give the transfusion that is needed? Why do we have to wait until the country is deep into recession before we respond to a situation that is clearly out of hand?

*Second*, tax relief is the only fiscal stimulus that can be used time to ward off a recession in 1974. In principle, the Administration agrees that a stimulus may be necessary, because it has pledged to "bust the budget" to prevent recession. But the only step it seriously contemplates is increased government spending.

To be sure, we need increased spending for programs like public service employment and extended unemployment compensation benefits. But these are steps to deal with the consequences of recession, not to prevent it from taking place. In virtually every case, the lead time required for additional government spending is too long. If the economy needs a stimulus, it needs it now, and only a tax cut can do the job at once.

Once before, in the early Nineteen Sixties, Congress used a tax cut to pull the economy out of a tailspin of recession and stagnation. Thanks to that wise action, we got the country moving again, and the nation embarked on the longest sustained period of sound growth and real prosperity without inflation in our history.

If we do not learn the obvious lesson of our recent economic history, then we are doomed to repeat the recessions of the past, instead of enjoying the prosperity that wise action can bring us in the future.

We cannot just sit idly by and rely on the Administration's polyanna predictions of prosperity in the second half of 1974. For that to happen, things must break right for the Administration in at least three major areas:

Detroit must be able to recover in time for the 1975 model year, with enough capacity to produce enough small cars, and with enough customers who still want them.

Housing starts must make a dramatic comeback.

Spending on plant and equipment must continue at its present substantial level.

Perhaps these events will happen, but wishing will not make them so. The Administration admits that the economy is going through a difficult period now, but it is desperately trying to entice us to "look across the valley" to the promised land, without any real knowledge or confidence as to how wide or deep the recession valley is.

At best, a tax cut now will spare the nation the worst excesses and unwanted suffering of a serious recession. At worst, it will be a useful insurance policy to guarantee that this time, the Administration's rose-colored predictions actually come true.

*Third*, contrary to the view of the Administration, the tax relief we make available will not impede the fight against inflation. Apart from food and fuel, where inflation is obviously critical and where pinpointed attacks are clearly needed, the central economic problem of the nation is slack capacity for production. This is the major factor causing the current drift into recession, and it is likely to grow worse as the recession deepens.

Fiscal policy is not an effective tool against today's inflation, but at least it can be used to soften the burden of recession. Granted, we have to fight inflation, but we don't have to compound the problem by putting the economy simultaneously through the wringer.

*Fourth*, there is an additional anti-inflation argument that justifies tax relief at this time.

It is well known that 1974 will be a crucial year in the fight against inflation, because of the major collective bargaining negotiations scheduled for this year. To million of working men and women in every section of the country, these negotiations offer the opportunity—in fact the necessity—for substantial wage increases, to offset the soaring cost of living since their wage contracts were last negotiated.

As a result, however, the nation faces a real dilemma. If workers get the increased pay they obviously deserve, then the new wage costs will be passed along by business in the form of higher prices. In that event, the nation will be in for another unfortunate, sharp and upward turn in the ominous spiral of inflation.

By granting a tax reduction now, however, we can give partial relief to working men and women against the rising cost of living. We can thereby ease the pressure for inflationary wage increases in the round or collective bargaining negotiations taking place this year.

By developing this sort of imaginative "social contract"—suggested by George Perry and supported by other distinguished economists—we can accomplish a double goal: relief against inflation in the past for those who need it most, and a brake against the pressure of excessive inflation in the future.

*Fifth*, a tax cut to stimulate the economy is amply justified on an entirely separate ground, the ground of equity. It is the most effective step we can take today to bring relief to taxpayers hard-pressed by the growing burden of inflation.

We know the impact of our continuing uncontrolled inflation on millions of Americans hard hit by rising prices. The cost of living rose by nearly 9% in 1973, led by astronomical increases in the price of food and fuel, and the prospect of similar exorbitant increases throughout 1974 is likely.

Through a tax reduction, we can begin to redress the balance, by putting extra dollars into the hands of the people who need them most, especially the millions of families in low and middle income groups for whom a disproportionate share of income goes for food and fuel. Equity alone demands that we take this step, even apart rom the other persuasive economic arguments that can be made.

In sum, it is rare that tax relief is also sound in terms of equity and so many aspects of economic policy. It is also rare that Congress can take the sort of positive action that by itself is capable of keeping the economy on an even keel, without the need for elaborate controls or implementation by the Executive Branch. But we have such an opportunity today, and we cannot afford to miss it.

THE FORM OF TAX RELIEF

Among those who favor a tax reduction to stimulate the economy, there is broad agreement that a stimulus in the amount of about $6 billion in the current year would be appropriate. But there is less agreement on the form that tax relief should take.

Last January, by a vote of 53-27, the Senate adopted a proposal I made to increase the personal income tax exemption to $850 from the current level of $750 and to make the increase retroactive for the 1973 tax year. Subsequently, however, the Senate voted to recommit the Christmas Tree Bill to which the amendment had been added, and there has been no further action by the Senate on the issue.

The reason I favor the personal exemption is that other alternatives are likely to be controversial. Unlike the personal exemption, almost all of them involve a substantial degree of tax reform or income redistribution.

The virtue of using the personal exemption, either by itself or in conjunction with other steps, is that it is widely accepted today and widely understood in our tax laws. Therefore, it offers the best available avenue for immediate across-the-board relief to taxpayers in all income classes. Coupled with an increase in the low income allowance, for example, it would also achieve the important equitable goal of insuring that those whose income is below the poverty level do not bear any burden under the income tax.

The original theory of the personal exemption was that no individual or family should feel the bite of the Federal income tax until income was high enough to meet the basic cost of living. For years, the level of the exemption was high enough to amply meet this goal, but in the aftermath of World War II, the exemption fell behind, remaining constant at $600 from 1948 until 1969.

In real economic terms, the exemption would have to be set at $1150 today to match the effective value it had in 1948 in terms of consumer spending.

As Congress recognized in 1969, however, the revenue loss would be too large, and the social impact too inequitable, to try to bring the exemption into line with the value it had in 1948. And so, in the Tax Reform Act of 1969, Congress adopted a combination of modest phased increases in the personal exemption and an imaginative new concept, the low income allowance, to achieve the purpose of eliminating Federal income tax on those whose income is below the poverty level.

My own view is that, so long as we keep the concept of the personal exemption and the low income allowance in the tax laws, we should at least endeavor to provide annual cost of living increases in their levels.

In fact, an increase to $850 now, an increase of 13%, would precisely close the 13% gap in the cost of living that has opened since the exemption was raised to $750 at the beginning of 1972.

The cost of such an increase would be approximately $3.5 billion, which leaves the option of additional further tax relief of $2.5-3 billion by other methods, such as through the low income allowance, to reach the desired economic stimulus of about $6 billion.

As the accompanying table indicates, the personal exemption is not a seriously regressive feature of the tax code. If its level is increased to $850, the vast majority of the $3.5 billion in tax relief will go to low and middle-income groups, with fully 80% of the relief concentrated among persons with incomes of $20,000 a year or less.

I recognize the important questions of tax equity and tax justice that arise when Congress takes the rare step of cutting taxes. The proposed increase in the personal exemption is obviously not the only possible approach.

As a recent study by Joseph Pechman of the Brookings Institution shows, a package that raises the exemption to $850 in 1974 and $900 in 1975, coupled with an increase in the low income allowance from its present level of $1300 to $1400 in 1974 and $1500 in 1975, might best achieve the twin goals of relief for all taxpayers and eliminating tax on those below the poverty level. The cost of such a package would be approximately $4.2 billion in 1974 and $6.9 billion in 1975.

Perhaps by adopting a plan of alternative tax credits, as Senator Mondale has proposed, instead of increasing the personal exemption and the low income allowance, we can key the tax relief to provide even more assistance to low income groups, who are hardest hit by rising prices and rising unemployment.

Perhaps the relief should include "finely tuned" incentives for domestic industries, where the impact of the energy crisis and the recession will be great, and where the multiplier effect of the stimulus may be most significant.

Perhaps we should devise relief to reach the millions of citizens whose incomes are too low to owe any income tax at all, and who therefore will not benefit from any income tax relief.

Perhaps the package should include relief from the heavy bite of Social Security taxes.

Perhaps we should try to devise a formula to provide a stimulus without any long run revenue loss, such as through Senator Long's proposal for a one-shot

$25 tax credit this year, or through Senator Mathias' proposal to reduce the amount of overwithholding in the income tax, which has risen to immense levels in recent years—of the order of $22 billion this year.

My hope is that in these hearings, the primary emphasis will be on reaching agreement that tax relief is needed as a matter of urgent economic priority, and that whatever step we decide to take on economic grounds will not be obscured or delayed by controversy over the form that tax relief should take.

Congress will have ample opportunity later in the session to deal with tax reform, and to consider, for example, the proper balance between credits and deductions and other measures as they relate to the overall equity of the revenue laws.

In the tax reform proposals I made last year to the House Ways and Means Committee, I urged the Congress, as part of overall reform, to substitute credits for deductions in a number of major areas, including not only the personal exemption, but also such sacred cows as the homeowner's mortgage interest deduction and the deduction for medical expenses.

Today, however, our tax laws are clearly out of joint, and nowhere is the disparity clearer than in the case of these extremely popular tax deductions:

It makes no sense to me that, because of the rate structure of our revenue laws, a child in a wealthy family is worth a tax saving of $525 to his parents, while a ghetto child is worth only $105 in tax relief.

It makes no sense to me that the tax law saves the wealthy family 70 cents on every dollar in mortgage interest payments on its Scarsdale home, but only 14 cents on the dollar for the family home in Harlem.

It makes no sense to me that, through the tax laws, the United States Treasury pays 70% of the cost of a wealthy citizen's visit to his Beverly Hills physician, but only 14% of the medical bills for the family in East Los Angeles.

The myriad loopholes, inequities, and special benefits in the Revenue Code demand far more action and attention from Congress than they have received in recent years. Indeed, the prospect is good that the pending energy tax measure now nearing final action in the House Ways and Means Committee can become the foundation for comprehensive tax reform in the Senate.

But that prospect should not divert us from taking the emergency action needed now to stimulate the economy.

And so, in closing, I emphasize both the opportunity and the responsibility that Congress now has, and I urge the committee to report legislation rapidly to the Senate floor, so that the full Senate can work its will on the need for immediate tax relief to prevent recession.

My hope is that we can work out an agreement to limit Senate floor debate to the tax cut issue itself, in order to keep the bill from becoming the sort of Christmas Tree that would jeopardize its final passage. To this end, I would be pleased to work with the members of this committee to secure a narrow unanimous consent agreement on whatever bill the Committee chooses to report.

We hold in our hands the key to the present health of the nation's economy.

If we do nothing now, if we allow ourselves to be lured yet again into following the Administration's Pied Pipers of Prosperity, then we have only ourselves to blame. Five years of mismanaged economic policy and shattered credibility on the economy are enough. It is time for Congress to assert its power, to exercise its own independent judgment on economic policy, and to take the step that is needed now to bring the economy back to health.

REVENUE EFFECT OF INCREASING THE PERSONAL INCOME TAX EXEMPTION FROM $750 TO $850

| Adjusted gross income | Number of returns with tax decrease (thousands) | Number of returns made nontaxable (thousands) | Decrease in tax liability (millions) | Distribution of tax decrease | |
|---|---|---|---|---|---|
| | | | | Percent | Percent (cumulative) |
| 0 to $3,000 | 3,221 | 533 | 45 | 1.3 | 1.3 |
| $3,000 to $5,000 | 7,746 | 557 | 184 | 5.2 | 6.5 |
| $5,000 to $7,000 | 8,737 | 353 | 310 | 8.8 | 15.3 |
| $7,000 to $10,000 | 12,229 | 130 | 616 | 17.4 | 32.7 |
| $10,000 to $15,000 | 15,595 | 14 | 1,059 | 30.0 | 62.7 |
| $15,000 to $20,000 | 7,557 | 4 | 624 | 17.7 | 80.4 |
| $20,000 to $50,000 | 5,305 | (1) | 582 | 16.5 | 96.9 |
| $50,000 to $100,000 | 449 | (1) | 88 | 2.5 | 99.4 |
| $100,000 and over | 102 | (1) | 22 | 0.1 | 99.5 |
| Total | 60,940 | 1,592 | 3,531 | 99.5 | 99.5 |

1 Less than 500.

Our final witness is Mr. Joseph Pechman, director of Economic Studies of the Brookings Institute. Mr. Pechman, we are always honored to have you appear before our committee and if you desire, you may insert your full statement in the record and summarize it, sir.

## STATEMENT OF JOSEPH A. PECHMAN, DIRECTOR, ECONOMIC STUDIES PROGRAM, BROOKINGS INSTITUTION

Mr. PECHMAN. Thank you, Mr. Chairman. It is an honor for me and a pleasure to appear before this committee. We have always tried to be helpful to this committee, and I hope that we can continue to be helpful in the future.

I shall summarize my statement, briefly, because of the lateness of the hour.

I think it is important to make several points in connection with the problems that were discussed today. First, whether or not the current decline is labeled a business recession, aggregate economic activity is declining, unemployment is rising and profits are falling. I think there is no reason why we should sit tight and accept the consequences of this decline in business activity. The Federal Government has fiscal powers that would raise employment, income, and profits, and—in my opinion—would not aggravate the inflationary situation this year.

The decline is the result primarily of the direct and indirect effects of the energy crisis. Real gross national product is falling in this, the first quarter of 1974, and most forecasters are predicting either a slight decline or a flat real gross national product in the second quarter. Very few forecast less than 6 percent unemployment by the fall of this year. And, as I indicated, the portion of industry other than oil will be suffering from lower profits. The major reason why——

Senator MONDALE. Could I interpose?

Senator TALMADGE. Would you yield at that point?

Senator Mondale?

Senator MONDALE. I believe you were here when the Secretary said he anticipated the rise in economic growth, real growth in the latter part of this year. Do you disagree with that?

Mr. PECHMAN. In the second half of the year, there will be a recovery in business activity. The real question is how far the recovery is going to take us.

Senator MONDALE. We need an effective rate of almost 3 percent just to stay even, do we not, with unemployment?

Mr. PECHMAN. I would say 4 percent.

Senator MONDALE. You need 4 percent, so if you have a flat rate of growth you are going to add to unemployment?

Mr. PECHMAN. Yes; if the economy does not grow at the rate of 4 percent a year, unemployment will rise.

The major reason why we are having this decline is not because of business investment. Business investment is doing very well. The major reason is that the consumer sector is in the doldrums. The automobile industry has fallen flat on its face. The housing industry is also in the doldrums. The recovery the Secretary was talking about was predicated on the assumption that the consumer sector will bounce back at the end of this year. I suggest that there is no evidence that it will bounce back sufficiently to produce high enough employment to satisfy those of us who believe that 6-percent unemployment rate is too high.

In the circumstances, I think that a tax cut now, and quickly, is called for. I want to emphasize that I do not recommend that the strength of the Federal revenue system be reduced on a permanent basis. The Congress has a long list of possible tax reforms that would apply to the oil industry and others who do not pay their fair share of taxes that would easily offset, in future years, any tax cut of the type that Senator Mondale or that Senator Kennedy was talking about. My view is that a tax cut of about $6 billion, which would be enacted very promptly, would be just what the doctor ordered.

Now, I wanted to mention briefly a few of the calculations that I have made to help the committee think about what taxes might be cut. First, I believe that first priority for a tax cut at any time should be reduction of the oppressive payroll tax for social security. This has been discussed before, and I do not have to elaborate on that. Most of us are agreed—including, I was happy to hear, Secretary Shultz—that the time has come to look very, very seriously into the method of financing of this very important Government program. There is no reason why we have to have a regressive tax to finance social security benefits today. The employer and employee tax on a wage of $4,000—which for a family of four, is below the poverty line—is in excess of $400 a year. In this day and age of high prices, this is unconscionable. So, my first choice for reducing taxes this year, and any year until it is done, is to reduce payroll taxes.

I recognize, however, that for practical reasons, it is hard to believe that we get a tax cut of that sort enacted quickly.

Senator MONDALE. You see, I would like to couple this tax credit with repassage of the work bonus that passed the Senate and is now in conference, which would affect persons earning about $5,600 or less. The idea is to try to, in effect, rebate direct and indirect costs of the payroll tax for the poor.

Mr. PECHMAN. That would be an excellent way to start reforming the payroll tax. I think there are other things that ought to be done, but that would certainly be a good way to start.

Now, recognizing, therefore, that payroll tax cuts in the short run would be difficult to make, I turn now to the other possibilities, that is, to tax cuts under the individual income tax. Mr. Chairman, I have submitted two tables which compare the effects of four different plans of reducing individual income taxes. These are plans designed mainly to correct the minimum taxable level under the individual income tax. Since the exemptions and low-income allowance were last changed, we have had a very substantial inflation. I agree with Senators Mondale and Kennedy that something should be done to modify the minimum taxable levels so that a least the poor people do not have to be subject to income taxes.

The four plans I discuss in these tables are as follows:

First, the option of a $200 credit instead of the personal exemption, which is Senator Mondale's plan.

Second, an increase in exemptions to $850 in 1974, and $900 in 1975 and later years, which is Senator Kennedy's plan.

Third, keep the exemptions and low-income allowance as they are, but enact enough of a per capita credit in 1974 and 1975 to about equal the revenue loss under the exemption plans. It turns out that the credit that is needed to do that, as calculated by computer, is $22 per capita for 1974 and $33 per capita in 1975.

The final plan would increase the low-income allowance to $1,400 in 1974 and $1,500 in 1975, and the personal exemption to $850 and $900, respectively, in 1974 and 1975.

It is very difficult to choose among these plans. All of them will concentrate all or most of the relief in income classes below $25,000. My own personal preference is a modification of both the Mondale and the Kennedy plans. I would prefer to operate on the low-income allowance and the per capita exemption, so that the revenue loss will raise the minimum taxable levels roughly to the poverty lines, and this should be done proportionately for all marital statuses. The $200 tax credit plan is somewhat more generous to large families than either the exemption plan or the smaller credit plan.

Senator MONDALE. That is one of the reasons I am for it. I think we get the social policy and the tax policy mixed up. The zero population growth people argue that the exemption encourages large families. Well, if you think it is a good business proposition, you have to be an awfully bad economist to think you are going to make money on a kid by getting $125 or $150 cut off your taxes. It costs more than that unless you starve it to death. And, second, there are millions of kids out there in large families whose chief wage earner or maybe sole wage earner earns $8,000, $9,000, $10,000, $11,000, and they are flat broke. And why should we not have a family policy? Most countries have a children allowance. We do not have one. Why do we not have a policy to bring a little relief to those families so they can do a better job of raising their children?

Mr. PECHMAN. The only answer to that question is that our ability to cut taxes or to raise expenditures is limited. If there is only $6 billion to go around, my own personal preference would be to share it among families of different size as equitably as possible. As my tables show the $200 credit would increase the minimum taxable level for a family of six from the present $5,800 to $8,300, while the projected poverty level for this year for this family is about $6,500. In other words, whereas——

Senator MONDALE. You mean that if you live in Washington, D.C.—would there be four kids?

Mr. PECHMAN. Four kids; yes.

Senator MONDALE. What is the poverty line?

Mr. PECHMAN. The poverty line is $6,461.

Senator MONDALE. $6,461. Of course, that is based on that low-income budget food allowance, which only a graduate dietitian could live on.

Mr. PECHMAN. I agree.

Senator MONDALE. So, that is just about right then at $8,300.

Mr. PECHMAN. I agree that the tax burden on a family of six with $8,300, ought to be alleviated. However, since we have a limited amount of revenue to play with, it seems to me that raising the minimum taxable level for a family of four from something like $5,800 to $8,300, which is $1,900 higher than the estimated 1974 poverty level, is somewhat generous when the minimum taxable level for a single person would be only $235 higher. I think that that is a somewhat inequitable result.

Senator MONDALE. It is geared to the size of the family. Is that not a relevant consideration?

Mr. PECHMAN. It is geared to the size of the family, but I think incorrectly. Whatever budget concept you use for one family status ought to apply to the other. Beginning in 1969 and then again in 1971, we decided to use the poverty lines as an indication of the minimum taxable levels. I think that, for the future, it makes sense to correct the minimum taxable level for inflation. This requires corrections in both the exemptions and the low income allowance. Now, as I said, you can also accomplish this objective with a combination of credits and exemptions. If I had more revenue, I would raise the minimum taxable levels proportionately for all family sizes, rather than concentrate the relief among small or large families.

Thank you, Mr. Chairman.

Senator TALMADGE. Thank you very much for your excellent statement, Mr. Pechman.

On numerous occasions in the past, you have described your work as regarding a comprehensive income tax system. In this presentation, you have emphasized that the Federal individual income tax basis is eroded by exclusions, deductions and exemptions, which are not essential for effective income taxation. If, in fact, that is the direction in which we should move, why do you now advocate changes in the existing structure which would make it even more difficult to shift over to the concept of a comprehensive income tax base?

Mr. PECHMAN. The proposal I make today does not involve any erosion of the tax base in the sense that you just described. What I am talking about is modifying the low-income allowance and the personal exemptions for the erosion that has taken place in these important aspects of the tax structure as a result of inflation. It seems to me that that is the minimum that we should do to protect people in the low- and middle-income classes.

I also believe that, because of the existence of all of the unnecessary exclusions, deductions, and exemptions you mentioned, there are ample opportunities for making up the revenue that we would lose and not reduce the strength of the revenue system ultimately. I share with you, Mr. Chairman, your concern that for the long run we should not make the Federal budget a deficit machine. In good times, the Federal budget should be probably balanced. I do not think that reducing taxes now to raise the exemption and the low-income allowance moderately will impair that objective, provided, of course, Congress goes ahead as it seems to be doing, and seriously considers modifying the income tax structure, so that all people pay their fair share.

Senator TALMADGE. I thought in previous presentations, you had presented the view that we ought not to have any deductions, any exclusions whatever, that all gross income ought to be taxed?

Mr. PECHMAN. That is a slight exaggeration. I have suggested to this committee that we should eliminate most of the personal deductions and practically all of the exclusions, but that we ought to keep a low-income allowance and personal exemptions. These are needed to remove the poor from tax rolls, and also to provide some progression in the lower income classes.

Senator TALMADGE. Thank you, sir.

Any further questions, Senator Mondale?

Senator MONDALE. Just one question. If the $200 tax credit bill passes, and the President signs it, will it be good for those who receive relief and good for the economy?

Mr. PECHMAN. Yes, sir.

Senator MONDALE. Thank you.

Senator TALMADGE. Thank you, Mr. Pechman.

[The prepared statement with attachments of Mr. Pechman follow:]

**PREPARED STATEMENT OF JOSEPH A. PECHMAN,[1] DIRECTOR OF ECONOMIC STUDIES, THE BROOKINGS INSTITUTION**

**TAX POLICY FOR 1974**

I am pleased to have this opportunity to appear before the Senate Finance Committee to discuss the current economic situation and the tax policies that should be pursued to help moderate the current business decline.

Whether or not the current decline is eventually labelled a recession, total production, employment and profits (other than those of oil companies) are falling. Even if the oil crisis had somehow been averted, the pace of economic activity would have moderated this year. As it has turned out, the direct and indirect effects of the oil crisis have cut deeply into consumption and real GNP is now declining for the first time since the last quarter of 1970. The sharpest cuts have been in automobile sales and residential construction, but sales of other consumer goods are also disappointing. Thus, whereas business investment is booming, the consumer sector is in the doldrums.

Estimates of the decline in real gross national product during the first quarter of 1974 vary from 2 to 4 percent at an annual rate. Beyond that, most forecasters believe that real gross national product will be roughly flat in the second quarter and will then rise during the third and fourth quarters. The pace of the increase in the latter part of the year depends heavily on two factors: first, the extent of the revival in automobile demand and the ability of the auto industry to satisfy the demand for small cars; and, second, the extent of the revival in housing. Both sectors will be affected by consumer attitudes toward the outlook for oil in the long run. If consumers are pessimistic, they may not buy many of the new model cars next fall and may also continue to shy away from buying homes in the suburbs. Ultimately, residential construction in and closer to the cities will pick up the slack, but this will take time.

A major factor in the explanation of the behavior of the consumer is the inflation. With declining employment, disposable income in money terms is not rising very fast (in January of this year, it actually fell). After taking into account the rise in prices (mainly in food and fuel), real disposable income is falling sharply. The increase in gasoline prices alone has had almost the same effect as an $8–10 billion tax increase, and there is more to come, inevitably, this has an enormous effect on spending plans in the rest of the consumer budget.

To turn the business situation around, the administration is counting on continued growth in business investment and a revival of consumer demand in the latter half of the year, despite reduction in real incomes in the first half. On this basis, it has submitted a relatively conservative budget—the fiscal stimulus from the budget will actually be lower in fiscal year 1975 than in fiscal year 1974. Although the administration has made it clear that federal expenditures will be increased if its expectations of a revival are disappointed, it opposes an immediate tax cut for fear that it will add to the nation's inflationary pressures.

In fact, the path prices will take during 1974 is almost independent of the short-run business situation and of the fiscal policies that will be followed this year. As a result of shortages of food and fuel, prices will rise sharply during the first half of the year. On the assumptions that the summer harvest will be respectable and that world oil prices will soon reach their peak (if they have not already done so), the rise in the general price level will be moderating in the second half of the year.

Because of all the uncertainties, it is not clear that the recovery in the latter part of the year will come up to the administration's expectations. Unemployment

[1] The views expressed are my own and are not necessarily those of the officers, trustees, or other staff members of the Brookings Institution.

will exceed 6 percent and profits in industries other than oil and machinery and equipment will be much lower than 1973 profits. Profits of firms in consumer goods industries and in consumer services will be particularly disappointing. I do not believe that we should sit tight and let the economic situation develop in this way.

In my opinion, the prudent thing to do is to take prompt action to buttress lagging consumer demand. The unemployment insurance system should be strengthened, public service employment should be expanded, and more aid should be given to housing. But given the lags that are inherent in expenditure programs, it is doubtful that total federal expenditures can be increased fast enough to have a significant effect on the current decline in consumption. Under the circumstances, it would be appropriate to make a general tax cut that would apply to the incomes of the mass taxpayers. Such a tax cut has the virtue that it could be reflected in the take-home-pay of workers through reduced withholding in a few weeks. In current conditions, a tax cut of $5–$6 billion a year would be in order.

My first choice for a general tax cut this year would be to reduce the payroll tax for social security. This tax is the most regressive tax in the federal revenue system; at current rates, it is extremely burdensome on poor and near-poor workers. The payroll tax is defended by those who think of social security as an insurance system, but everybody knows that payroll taxes do not pay for an individual's retirement benefits, even with accumulated interest. The insurance myth should no longer be allowed to perpetuate oppressive taxation.

The most effective way or reforming the payroll tax would be to introduce into the calculations of payroll taxes the same exemptions and low-income allowance used in the individual income tax and to lift the taxable earnings ceiling. With present rates, this is roughly a stand-off in terms of revenue, so that it would be possible to cut the tax rate in order to obtain a net revenue loss. Alternatively, if the gross payroll tax is retained, the tax rate applying to employees could be cut. In either case, an equivalent amount of general revenues could be transferred from the general fund to the social security trust fund. As my Brookings colleagues, George Perry and Charles Schultz have pointed out, a reduction in payroll taxes could be made part of a "social contract" for wage moderation this year. Cost inflation would be moderated to the extent that tax cuts were substituted for money wage increases.

I recognize that it may be difficult to obtain prompt Congressional approval of a payroll tax reduction. In that event, the next best choice for tax reduction this year would be a general cut in income taxes, particularly for those in the lower income classes where the effects of the inflation have been serious. A number of devices can be used to implement this objective, including tax credits and increases in the personal exemptions and the low-income allowance. A statistical analysis of four such possibilities, based on a projection to the years 1974 and 1975 of data in the Brookings 1970 federal income tax file, is summarized in Tables 1 and 2.

Plan I in these tables would offer a $200 tax credit as an option in lieu of the usual $750 personal exemption. Plan II would raise the personal exemption to $850 in 1974 and to $900 in 1975 and later years. Plan III, which would reduce revenues as much as Plan II, would maintain the current $250 exemption and add an across-the-board tax credit of $22 in 1974 and $33 in 1975 and later years. Plan IV would raise the low-income allowance to $1,400 and the personal exemption to $850 in 1974, and to $1,500 and $900, respectively, in 1975.

Table 1 compares each plan with the estimated poverty levels for 1974 and 1975. Plan IV is the most successful in approximating the poverty lines for 1974 and 1975. If the poverty lines are assumed to be the standard, Plan I would be excessively generous in raising the minimum taxable levels, particularly for large families. Plans II and III are closer to the poverty levels than Plan I, but they do not do as well as Plan IV.

The revenue losses under the various plans and their distributions by income levels are given in Table 2. All the plans concentrate the tax reductions largely in the adjusted gross income classes below $25,000. Under Plan I, over one-half of the 1974 tax reduction accrues to persons with incomes below $10,000 and almost all of the reduction goes to taxpayers with incomes below $25,000. At the other end (though the distance is not far), about one-quarter of the 1974 tax reduction under Plan II accrues to the classes below $10,000 and over 80 percent goes to taxpayers with incomes below $25,000. Plan III is more nearly similar to Plan I in its distributional effect while Plan IV is more nearly similar to Plan II.

On balance, my preference is for Plan IV, for three reasons: first, the minimum taxable levels more nearly approximate the 1974 and 1975 poverty lines under Plan IV than under any of the other plans; second, Plan IV provides more moderate tax cuts to large families than do the tax credit plans; and, third, it would be wise to continue the practice, established in 1971, of correcting the low-income allowance and the personal exemption for the erosion that occurs during inflation. However, I am sure that judgments will differ on the relative merits of the various approaches.

In closing, I should like to add that I recommend this type of tax action on the assumption that there will be other tax legislation this year that will recover at least as much or more revenue for later year through tax reform. Given the urgent need for improving the nations health, education, welfare, and other social programs, it would be unwise to cut the strength of the revenue system over the long run. There are, however, more than enough opportunities to raise additional revenues from the very high profits of the oil companies and from others who escape their fair share of taxation. I would welcome the opportunity to cooperate with this committee in devising such a revenue-raising reform program.

TABLE 1.—INCOME LEVELS AT WHICH FAMILIES OF DIFFERENT SIZE BECOME TAXABLE UNDER VARIOUS EXEMPTION AND TAX CREDIT PLANS COMPARED WITH POVERTY LEVELS IN 1974 AND 1975 [1]

[In dollars]

| Family size | Projected poverty level [2] | Present law [3] | | Plan I [4] | | Plan II [5] | | Plan III [6] | | Plan IV [7] | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Income level | Difference | Income level | Difference | Income level | Difference | Income level | Difference | Income level | Difference |
| 1974 | | | | | | | | | | | |
| 1 | 2,409 | 2,050 | −359 | 2,644 | +235 | 2,150 | −259 | 2,207 | −202 | 2,250 | −159 |
| 2 | 3,101 | 2,800 | −301 | 3,988 | +887 | 3,000 | −101 | 3,114 | +13 | 3,100 | −1 |
| 3 | 3,807 | 3,550 | −257 | 5,182 | +1,375 | 3,850 | +43 | 4,021 | +214 | 3,950 | +143 |
| 4 | 4,871 | 4,300 | −571 | 6,247 | +1,376 | 4,700 | −171 | 4,929 | +58 | 4,800 | −71 |
| 5 | 5,748 | 5,050 | −698 | 7,300 | +1,552 | 5,550 | −198 | 5,836 | +88 | 5,650 | −98 |
| 6 | 6,461 | 5,800 | −661 | 8,353 | +1,892 | 6,400 | −61 | 6,743 | +282 | 6,500 | +39 |
| 1975 | | | | | | | | | | | |
| 1 | 2,554 | 2,050 | −504 | 2,644 | +90 | 2,200 | −354 | 2,286 | −268 | 2,400 | −154 |
| 2 | 3,287 | 2,800 | −487 | 3,988 | +701 | 3,100 | −187 | 3,271 | −16 | 3,300 | +13 |
| 3 | 4,035 | 3,550 | −485 | 5,182 | +1,147 | 4,000 | −35 | 4,257 | +222 | 4,200 | +165 |
| 4 | 5,163 | 4,300 | −863 | 6,247 | +1,084 | 4,900 | −263 | 5,243 | +80 | 5,100 | −63 |
| 5 | 6,093 | 5,050 | −1,043 | 7,300 | +1,207 | 5,800 | −293 | 6,217 | +124 | 6,000 | −93 |
| 6 | 6,849 | 5,800 | −1,049 | 8,353 | +1,504 | 6,700 | −149 | 7,187 | +338 | 6,900 | +51 |

[1] Assumes joint returns are filed by families of 2 or more persons.

[2] Projected from the official poverty lines for 1972 on the basis of the actual increase in the Consumer Price Index from 1972 to 1973 and assumed increases of 8 percent for 1973-74 and 6 percent for 1974-75.

[3] Present law: $750 exemption and $1,300 low-income allowance.

[4] Plan I: Option to elect either a $200 credit for each exemption or $750 exemption, whichever yields the lower tax.

[5] Plan II: $850 personal exemption for 1974, $900 for 1975.

[6] Plan III: For 1974: $22 credit, which has the same revenue effect as an $350 exemption; for 1975: $33 credit, which has the revenue effect as a $900 exemption.

[7] Plan IV: For 1974: low income allowance of $1,400 and personal exemption of $850; for 1975: low income allowance of $1,500 and personal exemption of $900.

TABLE 2.—DISTRIBUTION OF TAX REDUCTIONS UNDER VARIOUS EXEMPTION AND TAX CREDIT PLANS, BY ADJUSTED GROSS INCOME CLASSES, 1974 AND 1975 [1]

[Dollar amounts in millions]

| Adjusted gross income class | Plan I: Amount of tax reduction | Plan I: Percentage distribution | Plan II: Amount of tax reduction | Plan II: Percentage distribution | Plan III: Amount of tax reduction | Plan III: Percentage distribution | Plan IV: Amount of tax reduction | Plan IV: Percentage distribution |
|---|---|---|---|---|---|---|---|---|
| 1974 | | | | | | | | |
| 0 to $5,000 | $718.4 | 12.2 | $207.2 | 5.2 | $285.8 | 7.2 | $330.4 | 7.7 |
| $5,000 to $10,000 | 2,304.0 | 39.1 | 792.3 | 19.9 | 982.4 | 24.6 | 97.36 | 22.7 |
| $10,000 to $15,000 | 2,113.8 | 35.9 | 1,051.4 | 26.4 | 1,157.6 | 29.0 | 1,051.4 | 24.6 |
| $15,000 to $20,000 | 684.1 | 11.6 | 789.9 | 19.9 | 762.3 | 19.1 | 789.9 | 18.4 |
| $20,000 to $25,000 | 58.7 | 1.0 | 448.5 | 11.3 | 380.1 | 9.5 | 448.5 | 10.5 |
| $25,000 to $50,000 | 6.4 | .1 | 516.6 | 13.0 | 346.1 | 8.7 | 516.6 | 12.1 |
| $50,000 and over | .2 | 0 | 172.1 | 4.3 | 72.7 | 1.8 | 172.1 | 4.0 |
| Total | 5,885.6 | 100.0 | 3,978.0 | 100.0 | 3,987.0 | 100.0 | 4,282.5 | 100.0 |
| 1975 | | | | | | | | |
| 0 to $5,000 | 702.9 | 12.4 | 296.8 | 4.7 | 404.8 | 6.6 | 530.3 | 7.7 |
| $5,000 to $10,000 | 2,198.6 | 38.8 | 1,132.0 | 18.1 | 1,386.8 | 22.7 | 1,504.6 | 21.9 |
| $10,000 to $15,000 | 1,916.2 | 33.9 | 1,440.6 | 23.0 | 1,588.5 | 26.0 | 1,440.6 | 21.0 |
| $15,000 to $20,000 | 747.4 | 13.2 | 1,284.6 | 20.5 | 1,245.0 | 20.4 | 1,284.6 | 18.7 |
| $20,000 to $25,000 | 90.2 | 1.6 | 819.1 | 13.1 | 700.9 | 11.5 | 819.1 | 11.9 |
| $25,000 to $50,000 | 5.0 | .1 | 980.4 | 15.7 | 656.5 | 10.7 | 980.4 | 14.3 |
| $50,000 and over | .2 | 0 | 299.5 | 4.8 | 126.0 | 2.1 | 299.5 | 4.4 |
| Total | 5,660.6 | 100.0 | 6,253.1 | 100.0 | 6,108.6 | 100.0 | 6,859.1 | 100.0 |

[1] Estimates based on projections from the 1970 Brookings Federal income tax file.

Note: For an explanation of plans, see table 1. Figures are rounded and will not necessarily add to totals.

Senator TALMADGE. The committee hearings will now stand in recess until 9:45 tomorrow morning.

[Whereupon, at 12:30 p.m., the hearing was recessed, to reconvene on Wednesday, March 20, 1974, at 9:45 a.m.]

# PROPOSAL TO INCREASE THE INCOME TAX PERSONAL EXEMPTION

**WEDNESDAY, MARCH 20, 1974**

U.S. SENATE,
COMMITTEE ON FINANCE,
*Washington, D.C.*

The committee met, pursuant to notice, at 9:50 a.m., in room 2221, Dirksen Senate Office Building, Senator Walter F. Mondale presiding.

Present: Senators Mondale, Byrd of Virginia, Bentsen, Fannin, and Dole.

Senator MONDALE. The committee will come to order.

I am very pleased this morning to have Walter Heller appear before this committee to discuss the matter of the antirecession tax cut.

## STATEMENT OF WALTER W. HELLER, REGENTS' PROFESSOR OF ECONOMICS, UNIVERSITY OF MINNESOTA

Mr. HELLER. Thank you. I am glad to be here.

If I may, Mr. Chairman, I would like to read from my prepared statement, interpolating some material as I go along.

Senator MONDALE. That will be fine.

Dr. HELLER. This committee is understandably perplexed as to the path of economic and social and fiscal responsibility in taxation in this period of recession and inflation. On the one hand, you are told that broad-based tax reduction would supply badly needed stimulus for a sagging economy and provide a significant antidote for rising unemployment. And then on the other, as you heard yesterday, in effect, Secretary Shultz was saying that it would aggravate an inflation that we know is already intolerable. And you must wonder whether there is any way of fighting recession that would not cost an unacceptable price in worsened inflation.

Now, given the likely course of the economy this year and the peculiar nature of our current inflation, I do believe that a broad-based cut of moderate size—perhaps $6 or $7 billion in income and payroll tax cuts—could help us cushion recession and speed recovery with only minor effects on the course of inflation this year.

And I thought it might be worth looking at the question, is it an economically responsible act, is it a socially responsible act, is it a fiscally responsible act to increase exemptions, to cut income and payroll taxes at this stage of the game. Now, to support this conclusion that it is, I think one has to establish the reasonableness of three propositions.



30-469—74——6

The first is that the economy is sliding into a recession, not because of—and I am not going to argue, by the way, whether we are going to call it a recession or a downturn or a crunch or what have you. The point is, unemployment has been rising. It is going to keep on rising, and the economy is developing a lot of slack.

So, the first proposition is that it is sliding into recession not primarily because of materials shortages and supply bottlenecks, but primarily because of a sag in consumer buying and in home buying, that is, because of a lack of demand. And specifically, I think one ought to look at the evidence that that is the case.

Personal income has dropped $4 billion in January. The gasoline shortage has converted a decline in auto sales into something that looks like a disaster for the time being.

Senator MONDALE. That looks like it is going to be what, about 7 million cars?

Dr. HELLER. Yes, and I noticed in this morning's paper, the sagging auto industry has almost 1¼ million unsold cars in inventory.

Senator MONDALE. And that is the Washington Post?

Dr. HELLER. That is the Washington Post this morning.

And the UAW estimates at least 100,000 workers have been laid off because of this sales slump, and Michigan has a 10.5 percent unemployment figure as a result.

Senator MONDALE. We had hearings the other day in Los Angeles, and the on the spot appraisal was that they were already in excess of 6 percent, and rising.

Dr. HELLER. Well, that is, of course, a reflection of an average rate of 5.2 percent. It is true that the unemployment rate held steady for a month. But that often happens if you have a big jump as you did from December to January. We jumped four-tenths of a point, and I do not know of any analyst who thinks we are going to hold at 5.2 percent from here on out. As you know, the administration thinks 5.6 and 5.8, and I think most of us as outside observers are inclined to think it will go above that.

So first of all you have what I call essentially the automobile sales disaster. And by the way, when you weight those cars by size—you know, they talk about 33 percent or 32 percent drop in sales. Bear in mind that it is a 50 percent drop in the big cars, in the standard cars. Weighted, the dollar weighted loss is a lot bigger than simply the unit loss.

Then in durables other than cars, you know, consumption has been falling in real terms for nearly a year. People talk as if we are in a new sort of situation in which there is weakness in the economy. This has been happening since the first quarter of last year. In real terms adjusted for inflation our consumption of durables other than cars has been dropping, and consumer spending for nondurables and services is just a trifle ahead of inflation for this part year. And as you know, residential construction has dropped sharply from $60 billion a year ago to $45 billion at an annual rate today. There is another $15 billion drop in the economy.

Senator MONDALE. What is the number of housing starts approximately?

Dr. HELLER. Well, the housing starts dropped to 1.4 million, and the latest number that came out yesterday or the day before was a jump to 1.8 million. But even the agency announcing that number said it could very well be an aberration because of the unusually favorable weather in February, and that one should not really take that as the trend number for the year.

Now, the question comes, is there not some quick rebound in consumer spending in sight?

Frankly, I do not see it. Exploding oil prices are still working their way through the economy, and they are soaking up $15 billion of $20 billion of purchasing power that people would use for other goods and services, but have to go into gasoline and oil and other petroleum products. It is really the amount of tribute that the American consumer has to pay to foreign and domestic oil producers.

In the short run, of course, very little of that is going to show up in the economy. The stuff that goes abroad, the amounts that go abroad to foreign oil exporters, all that will have a minor impact on our exports, but very minor. And as far as the domestic oil companies are concerned, I do not think much of this is going to show up again in the economy either from dividends or from their investment programs, as they are pretty well set. They will simply finance more of them out of cash flow instead of going to the capital and equity markets.

Now, the question might be raised, with an end to the Arab embargo for all practical purposes, will this effect not be reduced?

And the answer is it will be increased. The oil drag, that is, the cost inflation of prices and a tax-like deflation of demand will actually increase, because of course, we are going to bring in more of the expensive foreign oil in our mix, and therefore that overall price is going up. And again, in today's paper I notice they expect the price of gasoline still to rise. Somebody said 5 cents by the end of the year. Somebody else said, no, it will be more than that. So that siphoning effect on consumer spending is going to be great. And I think one has to establish—the reason for spending this much time on that point—is that one has to establish that there really is a substantial slowdown in the economy that needs to be combatted by some kind of fiscal stimulus.

Now, the second proposition one has to establish is that the kind of inflation we have this year has a life of its own, and one that will lose must of its vigor by the end of the year, even if as much as $6 billion, $7 billion, $8 billion, of net fiscal stimulus—and I would include some action on expenditures, and I spell those out in some testimony I prepared for the Senate Appropriations Committee for later this morning—even if that much stimulus is pumped into the economy, it seems to me it will not really materially aggravate the inflation problem.

Why not?

Well, inflation has a very peculiar nature this year. It is a result of a food and fuel price explosion which does not have much to do, as Arthur Burns himself pointed out last fall, does not have much to do with aggregate demand conditions in the economy. It is a result of a very special supply and world pricing situation.

The same thing is true of commodities other than food and fuel. That is really a bit of inflation that has sort of a life of its own. And as the countries all over the world cool off this year, that commodity price inflation ought to cool off. I do not suppose we can expect the kind of cooloff we had in 1951–52, but it is worth remembering that after the Korean war the dropoff in commodity price, world commodity prices, helped stabilize prices in this country for about 4 years.

Senator MONDALE. Why do you say it cooled off when it is likely that both food and fuel costs will remain high?

You are referring to the rate of escalation?

Dr. HELLER. Well after all, the way we define——

Senator MONDALE. It will cost as much, but it will not continue to escalate?

Dr. HELLER. That is it. You know, the way we define inflation, after all, is a rise in prices. Now, they are going to remain on a very high plateau, and from a standpoint of a consumer, you know, he tends to think high prices are inflation. But when we are talking about the rate of inflation here of say 12 percent in January in the consumer prices and maybe 10 percent for the first quarter of this year, we are obviously talking about the rate of increase in prices. And what I am suggesting is that the oil price inflation will tend to work its way through the economy, burn itself out and stay up here on a high plateau for a while.

Later on, as supplies increase and as we adjust demand, and more to small cars, insulation and so forth, that price should actually come down on fuel. On food, I think the main thing is that the price will abate. I do not think we are going to find it dropping, either, by the end of the year.

There will also be, by the way, a one-time pop-up effect of taking off the controls. That will burn itself out.

And finally there is cost-push. With average hourly compensation rising about 8 percent and productivity dropping, there is a lot of cost-push in there. But you take any one of these four or five factors, and not a one of them is an excess demand phenomena. And it seems to me that putting in a modest amount of fiscal stimulus—$6, $7, $8 billion—into a $1.3 trillion economy will have a miniscule effect on inflation.

Now third, the question has to be raised, is there not already a lot of stimulus in the proposed fiscal 1975 budget?

The deficit is going to increase and expenditures are going to increase. But the judgment of really impeccable authority is that it is essentially a neutral or mildly restrictive budget.

Senator MONDALE. They themselves call it restrictive, do they not, in the Council of Economic Advisers report?

They call it restrictive.

Dr. HELLER. The Council of Economic Advisers, the Federal Reserve Bank of St. Louis, the Congressional Research Service of your own Library of Congress, the Conference Board in New York, every one of them has concluded that it is essentially neutral, essentially continues the same policy of restraint of last year.

Nor, for the more detailed reasoning and facts that underline this I respectfully refer the committee to my attached statement on "Budget Policy for a Soft Economy."

Senator MONDALE. That will appear following your testimony.

Dr. HELLER. Thank you.

Now, I think the things I have said so far do establish a persuasive case that a prompt tax cut would be an economically responsible act. Now, the question is, would it be a socially responsible act, and actually, of course, that is its strongest point.

Before 1974 is over, inflation will have eroded the real value of the $750 exemption by more than 20 percent since it went into effect at the beginning of 1972, and boosting exemptions on the pattern of either your or Senator Kennedy's proposals would concentrate the bulk of the tax benefits at the middle and lower end of the income scale, where recent inflation, especially in the form of surging food and fuel prices, has exacted a particularly heavy toll.

I thought it was fascinating, Senator, that in our Sunday "Minneapolis Tribune" the study by Betty Peterkin of the Consumer and Food Economics Institute of the Department of Agriculture showed the way food prices hit the lower income groups. I thought it was extremely instructive on that score.

Take a family of four, a couple with two teenage boys, annual income $3,000. They spend 83 percent of their income for food. Even at $6,000, they spend 42 percent. You know, if you look at the people in this room, they probably spend 15 percent of their net income for food. It is not us that the 20 percent jump in food hits. It is the lower income groups. If you are spending 50 percent of your income on food, you know, with a 20 percent rise in food, you have lost 10 percent of your income. And that kind of restitution or reparations, I think, is very important.

I do not know whether this has been entered in the record.

Senator MONDALE. Let us put that in the record following your testimony.

Dr. HELLER. It is a fascinating table.[1]

Senator BENTSEN. Professor Heller, let me ask you, if we give a cut like this to persons of lower income who have such a large proportion of their expenditures on food, where will they spend the additional income that they receive?

Will it not go into things other than food?

Dr. HELLER. Well, they will distribute it across a band of expenditures. But the point I was trying to establish by referring to that table is that——

Senator BENTSEN. Let me follow through, then, and try to make my point a little clearer.

Dr. HELLER. Yes.

Senator BENTSEN. Actually, a moderate tax cut will not add to the pressure on the cost of food, I do not believe. I would guess that the additional funds they receive will go into other items where there is not as much pressure.

Dr. HELLER. I would think that to answer that question one would have to bring in the food stamp program.

Senator BENTSEN. Yes.

Dr. HELLER. Because the people in those brackets I have been referring to—not at $6,000, but at the lower end—do get food stamps, and those were just raised by 21 percent for a cost of living adjust-

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[1] See p. 105.

ment, and I think that program is absolutely vital under these circumstances.

Senator BENTSEN. In other words, I do not see that this cut would really have an inflationary effect, if we gave a modest cut.

Dr. HELLER. I do not think so, and I think even if part of that modest amount went into food, our basic situation today in food is a supply situation, and the prices are not going to be boosted by this small addition to demand.

Well, I would think that to reach those at the very bottom of the income scale we would also want to go beyond an income tax exemption increase, because of course that cuts off at the bottom of the tax scale, and that is not the bottom of the income scale. So that would also call for a step-up in social service programs—and I do have some suggestions on that in the Appropriations Committee statement that is appended—and relief from payroll taxes from the working poor and near-poor.

Senator BENTSEN. Let me ask you a question on that, Professor Heller. Let's look at a situation where a family makes $10,000 a year and it is a family of four. In 1973 they paid about $900 in income tax. They paid about $1,200 in payroll taxes. You have had a 300 percent increase in payroll tax in the last 10 years, and we look at this Social Security System in which we have changed it somewhat from its original concept. And I do not see that we have a so-called sanctity of the fund that was once thought of. We have extended its coverage substantially. And I recall that in the original consideration for social security that they were considering charging part of that to general revenue.

Is it not perhaps time we gave consideration to that in trying to help people of modest income, particularly, and move some of the social service costs over to a more progressive tax, which is the income tax?

Dr. HELLER. All I can say to this is "Hear, Hear." It seems to me that, as I say later in the statement, Senator Bentsen—and may I just, since it addresses itself so directly, may I just——

Senator BENTSEN. I did not mean to get ahead of you in your statement.

Dr. HELLER. No, that is all right. I would like to go directly to that. I note that since the Committee on Finance will have heard and seen ample testimony on the proposal for income tax exemption increases, I would like to add a few thoughts for the proposal for social security payroll-tax relief at the bottom of the income scale. Let me put my central concern in the form of a question:

What possible justification is there for extracting nearly 6 percent from the miserable pay of people in poverty and near-poverty status without regard to family size, and another 6 percent from their employers—5.85 to be exact—the bulk of which, it is widely agreed, also comes out of the hides of the wage earners?

Now, that addresses itself to your proposition precisely. What I have suggested is that we ought to introduce a vanishing exemption on the payroll tax very much along the lines of what Senator Long has proposed. It would be in the form of a $1,300 deduction and a $750 per capita exemption which would then phase out dollar for dollar of additional earnings above the basic allowance, and that would mean that a family of four would be fully exempt until their earnings exceed $4,300, and they would be fully taxable once their earnings exceeded $8,600, and then you would have to make restitution of those revenues from the general fund.

I do, by the way, recall very vividly an argument at the time that social security was introduced—as one of my major professors at Wisconsin, Ed Witte, was one of the fathers of the Social Security System—and there was a big argument about financing it out of general revenues or financing it as an insurance system. Now, the last thing it is now is an insurance system. It is a transfer system, it is a system by which the present working generation supports the present retired and disabled.

Senator BENTSEN. Professor Heller, I used to be in the insurance business and it is the farthest thing from a true insurance fund.

Dr. HELLER. Yes, so I do not know whether the Congress has time to give consideration to this basic change in the payroll tax philosophy, at least from the standpoint of the lowest income groups right now. It may be that this would have to be follow-on action to, say, an income tax exemption increase. But it is long overdue that we take action, as I say, along the lines of Senator Long's proposal.

Senator MONDALE. If I may interrupt on that last point. We passed last year Senator Long's "work bonus." The idea was to send back to the worker the direct and indirect costs of payroll tax up to about $5,600 a year to bring relief. It phases out at $5,600. The idea was to bring relief to the poorest employees and to help create an incentive for work. And I supported that. I thought that made sense. And I would like to hook something like my credit or an exemption, or credit and exemption, however it would work out, with that kind of proposal.

Would that make sense?

Dr. HELLER. I think that is ideal because after all, the problem does not stop at $750 per capita, or $850 per capita. The problem goes right on down to zero.

Senator MONDALE. I see a little-known economist, Paul Samuelson this morning in "Newsweek" urges that the exemption be raised to $900 or $1,000.

What is your reaction to that?

Dr. HELLER. On the individual income tax exemption?

Senator MONDALE. Yes.

Dr. HELLER. Yes, I noticed. That is his "Newsweek" column.

Senator MONDALE. Yes.

Dr. HELLER. I would put it this way, that to get a balanced program we probably should not increase the individual income tax exemption all that much, because in terms of the total revenue costs at the moment, we ought to reserve some of it for doing something for the lowest income brackets, that is, below the taxable exemption line. Now, if you could find some off-setting revenues to hold, say, the net loss down or the net revenue costs down to $6, $7 or $8 billion, then I would say, go on to $900 or $950 or even $1,000 on the exemption.

But under the circumstances, when we ought to reserve some of our revenue loss, so to speak, for the working poor and the near poor, I would tend to hold the exemption increase to the equivalent of $100 or $150.

Well, at the outset, then, I think we have established, if you accept my premises rather than Secretary Shultz's, that it is an economically responsible act to take this kind of action, that it is a socially-responsible act that seems to be simply beyond question. As a matter of fact, it is socially so imperative to do something for these middle- and lower-income groups whose income has been eroded so badly, it is so imperative that I would do it even if you had to match it dollar for dollar with tax increases today. I mean, the social case per se, quite apart from the economic case.

And finally, on this question of fiscal responsibility, I think it is worth putting it in perspective. This payroll tax plan, for example, if you just put that into effect on personal contributions it will cost $3 billion a year. This is now the Long plan held to the personal contributions. Both the personal tax and the employer contribution, on grounds that in the last analysis they both fall on the wage earner, that will cost you $5.6 billion a year.

Now, when you compare the costs, Senator, of your plan or Senator Kennedy's, or some of the variations that have been presented to the committee, when you compare that with the yield of the personal income tax, we are talking about taxes scheduled to yield $129 billion next year, and the losses would range from 3 to 5 percent under these various plans. And under the payroll tax we have to remember, as Senator Bentsen pointed out, how enormously we have increased that tax. That tax is, you know, almost, you have a feeling, taking over the tax system; $86 billion of payroll taxes are scheduled to roll in next year, and these losses that I have indicated here would be 3.5 percent under the modified Long plan and 6.5 percent if employer contributions were also covered, a very modest inroad into that plan that would have to be, of course, compensated for from general revenues.

Secretary Shultz has also covered with you another measure that could be taken, and that is the adjustment of withholding, and I will not go into that.

Now, to protect the integrity of the revenue-raising system in the longer run, Congress could couple its exemption boost with a firm commitment to compensate for the revenue losses by adopting revenue-raising tax reforms that could be phased in during 1975 and subsequent years. In short, I think the projected program would achieve immediate tax relief to stimulate the economy, to help those that are hardest hit by inflation, and would later restore revenues by measures that would improve the structure of the tax system. And I think that would be fiscal responsibility at its best.

Now, I did already speak to the point of some payroll tax relief, and I just want to repeat that even if the Social Security System were a true insurance system, which it is not, I doubt that the present approach can stand any reasonable test of equity and logic. It does not seem to me to make sense to take money away from the bottom income groups and then take it back to them and give it back to them by hit and miss means. I think it takes only a casual inspection of the wide disparity of inpayments and outpayments to see that it is not an insurance system in any rigorous meaning of that term.

And I quote here the study by the Brookings Institution, in which they say:

> It is far more accurate to think of the social security system as a national pension scheme, whose benefit levels are determined by the national priority accorded to the needs of the retired, the disabled and survivors, and whose costs are paid for by a tax on current earners. Once this point of view is accepted, there is no logical reason why the tax used to support the pension system should impose hardship on the poor.

And that is the end of the quote.

And when you consider the facts of economic life this year, this would be a particularly relevant time to introduce such relief.

I also note the point, which I believe the committee has already heard from other witnesses, that it is a very good time to give a combination of income and payroll tax relief just in terms of making some restitution to workers for the cut in their real income. I think you heard the statistic that in January the real spendable weekly earnings of labor were 4 percent below the year earlier figure, and in the 10 years the numbers have been kept that is the biggest drop. They normally rise 2 percent year in, year out. This time they dropped 4 percent. We really have cut deeply into the real earnings of labor, and if they get that all back at the bargaining table instead of the tax table, as my colleague George Perry puts it, it will build an awful lot of inflation into the wage-price spiral. And I would hope that by a judicious tax cut which labor would recognize as helping to restore its real income, they would not have to get all of that real income built into their wage settlements, because if they do that the wage-price spiral is going to perpetuate our inflation for years to come.

Just to sum up, combined income and payroll relief could help redress the grievances of inflation, improve the structure of the tax system, and help cushion the downturn now and support recovery later.

I am sure that we know there will be no lack of fears, real and fancied, brought to bear on this proposal. Some will say that Congress cannot get it all together fast enough to cope with the 1974 recession. Others will say that the economy cannot stand any stimulus without breaking out in a new rash of inflation.

I would just like to close these remarks by expressing my confidence first, that the Congress can and will act if it sees the need; second, that both the social and the economic need for action is compelling and is not going to fade away quickly. That is another mistake people make. They assume that the moment the economy starts rising—as I, too, would agree it will later this year—that the problem is over. Well, it is not. We will be well below our capacity, and when the economy is rising, unemployment will still be rising. So unless you get the economy revved-up to rise about 4 percent a year, the new people coming on the labor market are not absorbed; so unemployment will hang high for quite some time after the economy turns around.

And finally, I should say that our $1.3 trillion economy has the capacity to absorb $6 to $8 billion of net fiscal stimulus and put it to good human advantage, with only a very minor effect on inflation.

Senator MONDALE. Thank you very much. Dr. Heller, for a characteristically fine statement, and for changing your schedule in order to be here to testify on this series of proposals to try to deal with the downturn in the economy.

Yesterday, Secretary Shultz seemed to be looking at a different country or a different economy, at least, than you are. And I will read what I think is his main argument.

We are opposed to the tax cut for several reasons. First, Government policy is already responding to the economic slowdown brought on by the oil embargo. Our first line of defense in combating the rise in unemployment is the automatic stibilizers that are built into the economy. The stabilizers are an important reason the budget is now moving toward a larger deficit. Not many months ago we were anticipating a balanced budget for fiscal '74. Our projection now is that we will have a deficit of $4.7 billion. In fiscal '75, the deficit is expected to rise to $9.4 billion. These deficits will support economic activity during this period of weakness early this year and help prevent the economy from sliding into a real recession.

And based on those arguments, and based on a very strong argument about passing liberalized unemployment insurance, and doing something about a one-shot change in withholding which I did not quite understand, he said that will take care of it, and a tax cut would be inflationary.

Would you respond to that argument?

Dr. HELLER. Let me say first of all, on the automatic stabilizers, I am surprised in a way that he invoked those to the extent that he did, because under his stewardship of the Treasury, and indeed under President Nixon's Presidency, the full employment concept of measuring the budget's impact has come, so to speak, into full flower. He and others in the administration have argued that the real way to measure whether a budget is or is not expansionary is to try to take it at some stable level of unemployment and compare it from year to year and see what the flow of revenues would be at that level of unemployment, relative to the flow of expenditures. So you can sort out, to use what has become almost a cliche, the impact of the budget on the economy from the impact of the economy on the budget. And by that standard, the budget, if anything, is getting a little tighter.

I said it was staying about neutral. By the administration's own numbers, using the 4-percent full-employment definition—and it really does not matter, for this purpose, what level we are using so long as we keep a stable level of unemployment for these calculations.

Senator BENTSEN. Are they not changing that level, with the term "full employment" these days?

Dr. HELLER. I think it is an interesting thing that they are changing it when it comes to their objectives of economic policy, but they are not changing it when it comes to calculating full employment revenues. And I would like to see a little more consistency there; but I should not ask too much, perhaps.

But at the 4-percent level, the budget surplus for the fiscal 1974 budget is $4 billion. And by the President's own calculations, the surplus in the fiscal 1975 budget that he has proposed would be $8 billion, if we were running a 4-percent economy.

And the Federal Reserve Bank of St. Louis shows an even more startling increase. They show we are running about a $2 billion surplus now; and that would be a $12 billion surplus in the first half of next year.

Now the Council of Economic Advisers adjusts those numbers for the inflation impact and they come out to about $6 billion for each of the 2 years.

So you sort of can take your pick of those. And yet, all of them indicate that the budget is either holding the same level of restriction that it had last year, this current fiscal year, or that it is actually getting more restrictive.

So I do not think the automatic stabilizers point holds up.

As far as the remainder of his points are concerned, I think it would be splendid to have that improvement in the unemployment compensation system. I would hope that the Congress would act on the President's recommendations, and indeed would go beyond them.

And I say the same thing about public service employment. As a matter of fact, I am going to say the same thing later this morning. That the public service employment program, which is now restricted to—well, the President has proposed $250 million for this year and $250 million for the next year; and proposed restricting it to areas that have above 6.5 percent unemployment. It seems to me both of those restrictions are much too tight. We ought to make it available to areas that have 5.5 to 6 percent unemployment or above. And ought to bounce it from $250 million or $350 million to $1 billion. We have had experience with the system, we know how to work it; it is a very sharply pinpointed way of dealing with unemployment.

Then, on the final point, on the withholding, I am all for that. I think Secretary Schultz is certainly on the right wavelength on suggesting that we cut back from—what is it—$24 billion we now make of refunds each year.

Senator MONDALE. $26 billion; he estimates $26 billion.

Dr. HELLER. That is from overwithholding. Well, to cut that back $6 billion is a fine idea.

Now, the taxpayer has to cooperate; that is, he legally could get more withholding done if he wants to. And I think a lot of taxpayers do it on purpose. It is a way of forcing themselves to save. So I have a little bit of doubt whether you can legislate, actually, a cutback of withholding of $6 billion. I think it is worth trying. But I do not think one should underestimate the complexities of sorting it out so that you really fit the liability and the withholding tightly together.

You know, if you adopt this system, some people are going to be underwithheld. If you keep the same system we have now, we have too much overwithholding.

I just want to suggest it is not quite as simple as he, I think, made out, as I read his testimony. And that a lot of people, from the standpoint of the economy, a little bit unfortunately, at least this year, like to force themselves to save. And they might resist this change.

Senator MONDALE. Senator Fannin.

Senator FANNIN. Thank you, Mr. Chairman.

Dr. Heller, some economists allege that our present inflation is a result of the compensatory shortages and the bottlenecks in various factors of the economy; it is specifically not a result of excess demand.

For the sake of argument, assume this is true and assume further that the personal exemption is increased from $750 to $900. So, the increased spending that would result and the increased spending would surely be directed to those problem areas where bottlenecks and shortages exist. Two of these areas, after all, are food and energy. Then, unless these bottlenecks clear themselves up before the effects of the increased spending are felt, will not the inflationary pressures in these critical areas be heightened?

Dr. HELLER. Well, Senator, you know, no economist should sit here and deny that any increase in total demand in the economy, any increase in purchasing power, is going to have some effect on prices as well as on jobs, output, and income.

Really what you have to do is look at the nature of inflation and the nature of the economic problem and ask what kind of a bargain are you going to get.

I think in the current situation it is well established, as your question implied, that we do not have an excess demand situation in the economy as a whole. We do have the result of shortages in commodities other than food and fuel, plus the food and fuel itself. Those shortages in all of those areas are easy. That is to say, it looks from the crop reports, both in this country and in Europe, that we are going to have a considerably easier food situation; and that is what Secretary Butz keeps assuring us.

In addition, the fuel situation is easing, with the ending of the embargo. Our energy shortage is by no means over. I hope we do not get euphoric about it. It would be an enormous mistake for the country if we suddenly assume that school is out.

Nevertheless, in terms of the price runup that has already occurred, and the supply situation as it is developing, I think we are going to have an easing of that supply situation later in the year, and a trailing off of the fuel price explosion. I think that will burn itself out.

As far as the worldwide commodity prices are concerned, that is not really a function of demand in the United States. That is a function of the whole world—a tight economy and a tight commodity situation. And that is easy.

So I think we are in an unusually cost-oriented type of inflation, and not demand inflation. There is excess capacity developing in many segments of the economy, where additional spending wouldn't raise prices one bit because we have the supply capacity not fully utilized.

Senator FANNIN. That is certainly true of the automotive industry, we have an excess of supply and a lack of demand. But I find in talking to dealers, and I find in talking to real estate people, that the material shortages do have a great effect on the consumer because he has a fear of his job, in many instances, and then of course he has a fear of his investment. So you do have a play there that I think is vital in getting the movement of goods to the consumer. Until he has confidence in the future, he is going to be reluctant to buy.

Now, surely, if you give them some extra funds, that he would be prone, perhaps, to spend that money to a greater extent than he would if he were limited in funds. But at the same time, do you not think that we must overcome the confidence factor if we are going to be successful in turning this economy around?

Dr. HELLER. Well, I think that point is very well taken. We have had a lot of bottlenecks in production; we have had a lot of shortages in supply of materials and so forth. But we are moving very rapidly and forcefully to ease that situation. Now part of it is going to be eased by the misfortune of recession in housing and autos. That is going to release an enormous amount of materials to other segments of the economy.

When you drop housing from—what was the high?—2.6 million starts?

Senator MONDALE. 2.4 million starts.

Dr. HELLER. 2.4 million starts. And let us say it is 1.6 million now in spite of the 1.8 million jump for a month. When you drop cars by 30 to 40 percent, you release an enormous amount of material. I think, though, that would ease a lot of the shortage situation later in the year.

Now that is the negative side. The positive side is that we have an investment boom rolling that, thank the Lord, started late in our expansion; and that is going to pick up speed as the year goes on.

The Department of Commerce figures show that we had business fixed investment at a rate of $100 billion last year. It was supposed to be around $107 or $108 billion at the first of this year, and $116 billion the second half of this year. And an awful lot of that is exactly a response to what you are speaking of; namely, bottlenecks and shortages. And that is going to ease the situation on inflation, too.

Senator FANNIN. There is a great variance throughout the Nation as to whether or not there is a demand for housing, for instance, or whether there is overbuilding or just what has taken place. Assuming that aggregate demand is our major concern for the rest of this year, a tax cut will lower tax receipts, not only this year, but also in the future years. And we have to think about that.

Since the administration has only recently succeeded in restoring some semblance of balance to the budget, this reduction of tax receipts would have especially serious consequences.

Would we not be faced with a situation where, instead of earning a fiscal dividend over time, as the economy grows, we would be incurring a fiscal mortgage?

Dr. HELLER. Well, Senator, I think there are two parts to an answer to that question. One is, as I stressed whenever I have advocated the granting of an increase in the exemption for both social and economic reasons this year, that we ought to match it for the longer run with revenues that we raise from improvements in and tightening up of the tax system. And indeed, some adjustments should be made in the tax liabilities of the oil industry, which is of course, since it is now getting what we are told certainly are adequate and possibly overadequate incentives, from the price system, they no longer need their very generous tax incentives.

Thornton Bradshaw of Atlantic-Richfield, I think, has stated the position of at least one wing of the industry very effectively on that score.

Senator FANNIN. But he said he did not want the harassment; he would rather forget the depletion allowances rather than have the harassment. In other words, he said that people are saying we are fraudulently taking advantage of the situation. And he said, rather than to go further with that problem facing them, that he would rather do away with it.

That is not an answer. And furthermore, it is the small independent who benefits from those depletion allowances and that has a need for the extra revenue in order that he go forward. Because as you know, they explore and produce, or they find in their wildcatting and all, about 70 percent of all the new wells.

Dr. HELLER. Right.

Senator FANNIN. So we do not want to kill off the segment of the industry that is going to help us solve this problem; is that not true?

Dr. HELLER. Well, in that connection, Senator, I would certainly retain the deduction for intangible drilling and development costs on dry holes. It seems to me that that immediate expensing of those costs is the main tax benefit that we need to meet the problem that you are talking about.

Senator FANNIN. Well, it is a great factor, also, to entice the revenue, the investment. It is the utilization of the depletion allowances; and that is what maybe these independents, when they come to us and talk to us, they say, well, look, if you do away with the depletion allowance, you are going to just stop our source of revenue.

Dr. HELLER. Well, with $8, $9 and $10 on new oil, Senator, down there in Texas, as I read the New York Times, things are booming. They are indicating that it is a new life for them, and they are getting their incentives from the price system.

Senator FANNIN. Oh, absolutely; I realize that. But what we do not know, whether or not we will have foreign oil at $7, or whether we are going to have it at $10.

Now, if you listen to the Saudi Arabians, you will think maybe that we may go back to a $7 per barrel oil. If you listen to the Algerians or the Iranians, you will think we are going to go to $15 a barrel. So I know that there is not any way of determining that. But we also realize that Chase Manhattan has said it would cost one trillion, four hundred and fifty billion dollars—now that is up a little bit over what we were first talking—to finance the projects that are needed to solve our energy problem by 1985.

I just wonder where that money is going to come from, if we do not get it from this source.

Dr. HELLER. It is an enormous amount.

I would say this, that the capital markets are going to have to do a yeoman's job to provide that kind of capital investment. But it does not seem to me it follows that we ought to provide all of it or even perhaps the bulk of it in the form of tax-free, internal cash flow to the oil industry anymore than we would expect the automobile industry or the textile industry or any other industry to finance all of its needs from internal funds. They ought to get a good, substantial rate of return so that they can go to the capital markets and say, look, you lend us your money or give us your equity money and we will give you a good rate of return. But I do not think we should ask that it all be internal cash flow.

Senator FANNIN. Now that is exactly what I am talking about. They say that $650 billion should come from industry. These are just, you know, figures that they selected are a result of studious analyzation of what may be necessary. I do not think they just picked these out of the air, but nevertheless, there had to be a forecast, and it had to be based on inflation and many other factors.

But I am just wondering, getting back to what we are talking about, if we are going to depend on other taxation to replace the revenue that we are not going to have from the personal taxation; and we do get into the problem of then what we are going to do in that category of having the revenue available from industry?

Dr. HELLER. Well, it is a problem. Of course, I think a good part of the funds could come from tightening up, say, the Minimum Tax that at the present time is really just a tap on the wrist. It is a tap on the little finger, as we saw from President Nixon's tax returns. There is quite a bit of revenue there. There are a number of other places in the income tax system, both individual and corporate, where it seems to me we could improve the tax structure of the economy by removing some tax distortions, and removing some inequities and improving revenues.

Senator FANNIN. Dr. Heller, what we are actually talking about is if we removed all of those, taking all of those together, what do they amount to? Not any significant amount. I mean, we are not talking—not the $6 or $7 billion that we are talking about here.

Dr. HELLER. If you take Stanley Surrey's concept of tax expenditures, the deductions of various kinds that we give in the personal income tax are costing us, what—$50, $60, $70 billion a year? But I do not think it is at all unrealistic to assume that through the Minimum Tax, through cutbacks of the types of taxables that even the Treasury has proposed for various syndications of oil and real estate and so on, it would be very easy—well, excuse me; this is an academic position, I will admit. Politically it is not that easy, but one can point out $10, $15, $20 billion of revenues that could be picked up from those activities. And I would think that one would want to pledge oneself, one way or another, to match this erosion of the income tax—if you want to call it that—erosion of income tax revenues through the exemption increase, with a tightening up that would match that to protect the long-run revenues.

Senator FANNIN. Well, Doctor, I realize we can talk about that and it could be done, but then you have to analyze what effect does that have on the economy, and what effect does that have on the investments that are made in new housing and many other phases of activities—new buildings and so on. But that is a prolonged subject and I do not want to get into that now.

The one question I would like to conclude with is that, what is your thought about the increase that we now face in the national debt, adding on to that? And here we are talking about what is going to happen. In 1969, the national debt increased to about the same amount as the tax cut.

Dr. HELLER. Well, I think there I would use as a response the same response that the Nixon administration and particularly the Treasury have been using. And that is to show that in relative terms, the national debt even during the enormous deficits run up in the Nixon administration, has been a declining problem when you relate it to the size of the gross national product. And I think that is the only way to look at the management problem of the national debt.

I am not trying to minimize the problem of taxing in order to satisfy the debt service, but, you know, today the debt in the hands of the public is running, as I recall, 20 or 21 percent of the GNP for a year. It was 140 percent in 1946.

Senator FANNIN. But you and I both know that the GNP today is certainly not in the same proportion as it was then. And that the type of economy we have today and the way we figure our GNP—not that it was not always figured on a logical basis or illogical basis, whichever one you would want to say—but certainly it is a guide, only; is that not right?

Dr. HELLER. Well, none of us is going to say that it is a perfect measure. It is not. But as you make comparisons from year to year, or over a period of decades, the content of the GNP in technical terms has remained the same, or very closely the same, over the years. When they change it, they adjust the back figures so that it gives us a pretty good feel for the growth of the size of the economy in money terms.

Senator FANNIN. And some will say, the more wasteful we are, the larger the gross national product we have.

Dr. HELLER. Well, everything that is produced, whether it is by your definition or mine, wasteful or productive, is considered part of the gross national product. But the relevance of it to the debt, Senator, is that for every dollar of production, there is a dollar of gross income. And the burden of the debt has to be related—both in terms of the interest payments and any repayments when they are made—to that gross national income. And if that income grows, either in a wasteful way or in an inflationary way, it cuts the problem of the debt down to size, proportionately.

Senator FANNIN. And personally I think that this is very misleading in making decisions as to how our economy is fairing. In other words, whether or not our economy is going forward in an orderly fashion or going forward in an irresponsible way. I think it has a great deal to do with your analyzation of—or your comparison. I think it is very misleading.

Dr. HELLER. May I just add, you know, I am not arguing for an increase in the debt per se. I am not saying the debt is no problem. What I am saying is that if we have to incur some additional debt in order to maintain prosperity and protect jobs and income in the economy, it is not an unmanageable problem.

Senator FANNIN. We do not consider it unmanageable, because we have done it so long it is just a way of life. We would not want any other country that we were giving credit to, to handle their affairs on the same basis.

Dr. HELLER. Well, I think our U.S. fiscal record, in spite of some criticism that can be made of it, stands up pretty well to the fiscal record of most foreign governments.

I think, Senator, you would find a comparison of the debts and of the management of our fiscal affairs, maybe that is a reflection on the other countries.

Senator FANNIN. That is certainly a reflection on the monetary programs, I think that we have adopted worldwide, and I think that we are seeing now a challenge as to what is going to happen, so that we could get into a long discussion about that, as to what is going to take place, because here we are faced with a situation where the gold is the greatest illustration of the irresponsible handling of the monetary program of the world.

Dr. HELLER. Well, there certainly at the moment is a flight from currencies into commodities of all kinds, gold included.

Senator FANNIN. Well, thank you very much, Professor Heller.

Senator MONDALE. Senator Byrd.

Senator BYRD. Thank you.

Dr. Heller, you say that inflation eroded the real value of the $750 exemption by more than 20 percent since it went into effect in the beginning of 1972.

Are you saying, then, that inflation has eroded the value of the dollar 20 percent in that 2-year period?

Dr. HELLER. Well, I am counting calendar 1972, 1973, and projected 1974 inflation, 3 years.

Senator BYRD. For the 3-year period?

Dr. HELLER. 3 years, 20 percent; yes.

Senator BYRD. What has been the main reason for that deterioration in the value of the dollar?

Dr. HELLER. In other words, what has been the main reason for the inflation——

Senator BYRD. Right.

Dr. HELLER (continuing). Is the essence of your question?

Senator BYRD. That is right.

Dr. HELLER. Well, it has been a combination of factors. If one looks at it in a long-run context, the world as a whole has committed itself to maintaining a higher level of employment, a higher level of prosperity, than it did in, say, the pre-World War II period. You know, instead of having 14 percent average unemployment as we had in the thirties, we have been averaging something like 5 percent in recent years, and we have had to pay a price for that in part in more inflation.

Now, in other words, the policies that maintain a high level of employment come at a price. They come at the price of more pressure on our resources, more opportunities to raise prices. So that is an underlying reason that you could cite, not for inflation rates of 10 percent, but for a somewhat higher rate of inflation today that we had in those periods or that we had in the early sixties.

Senator BYRD. What period are you speaking of?

Dr. HELLER. Well, I am starting out with——

Senator BYRD. You said 14 percent. That goes back to the 1930's.

Dr. HELLER. That goes back to the thirties.

Senator BYRD. Do you not think you ought to get a little more up to date than the thirties?

Dr. HELLER. Well, yes. Take the early sixties. We had inflation rates of about 1.2 percent a year in the 4 years that I was Chairman of the Council of Economic Advisers. In my half of the sixties, we averaged less inflation per year than we have had in a couple of months in the past couple of years, and at that time we did have, of course, for those 4 years a very severe unemployment problem.

We started out with 7 percent unemployment, and got it down to about 4½ percent just before escalation of the war in Vietnam. We have averaged less unemployment than during that period, and that has accounted for some of the pressure.

Now, in this past 1½ years, the intensification of inflation pressures is associated with a whole series of things which, by the way, we as forecasters really muffed. We did not, when we were looking at this thing 1½ years ago, foresee how rapidly prices would take off. We missed five things.

First, we missed that phase 1 would be junked and replaced by phase 2. We missed how deeply the devaluation of the dollar was going to run, which, of course, increased prices of imports. We missed the fuel and food price explosion. We missed the fact that all of the world's economies were booming at once, which put upward pressure on commodities throughout the world, and that is really what has intensified our inflation problems. So I think those sources of inflation, as I indicated earlier this morning, are going to be ebbing this year.

In that respect, I agree with the projections that Mr. Shultz and Mr. Stein have been making. I do not think that it is quite as simple as they suggest. However, that is the wrong way to put it. I would not think that inflation would drop to 5 percent or below by the end of the year, but I come pretty close to that. I would say about 6 percent by the end of the year. That is not satisfactory, but it is a whale of a lot better than 12 percent, which we started the year out with. So I think there have been some very special factors superimposed on our basic, modern commitment to maintain a very fully employed economy.

Senator BYRD. Is it your feeling that there should be a net reduction in Federal revenues of $6 to $8 billion, or are you advocating that such reductions should be recouped in full through compensating tax increases?

Dr. HELLER. Net reduction this year during the period of softness in the economy; full recouping and matching of those losses phased in in 1975 and beyond, as the economy strengthens up again.

Senator BYRD. I assume that you do not feel that the heavy deficit financing by the Government has been a major factor in inflation?

Dr. HELLER. Well, in periods of full utilization of the economy, we should run surpluses not deficits, I think we were too slow in moving from a deficit to stimulate the economy in 1972—1972 is divisible by four and that might have something to do with it. We were too slow in moving from that to essentially running a surplus in the budget. We ran a surplus by full employment.

Senator BYRD. You have not run a surplus on the regular accounting methods and have run smashing deficits.

Dr. HELLER. I think we should have. I think it would have made sense to run a surplus on the regular accounting methods at about the 4½ percent level of unemployment that we reached. I would not have a run a large surplus, because it still does not get us down to the 4 percent unemployment target. I think it does make sense that when you are running your economy pretty much flat out the Federal budget ought to be in surplus.

Senator BYRD. Well, the Federal budget is way out of surplus, and way out of balance.

You mentioned in responding to Senator Fannin that the fiscal record of the United States can be favorably compared with foreign countries. What about Japan?

Dr. HELLER. Well, Japan is certainly an exception.

Senator BYRD. What about Germany?

Dr. HELLER. Germany has had its ups and downs.

Senator BYRD. It has had its ups and downs, but you do not seriously content that the fiscal policies of the United States would compare favorably with Germany's in the last 15 or 20 years, do you?

Dr. HELLER. I suppose if you took the whole 20-year period with Germany having its tremendous post-war boom. The revenues were rolling in as they were in Japan in that boom, and they were able to cut taxes successfully and still maintain budget balance over a considerable period of time. Those economies were running flat-out. Take Japan. They were running 10, 11, 12 percent annual growth in real gross national product, and Germany, of course, has over a considerable period of years run at about a 5 percent rate of increase in real output.

Senator BYRD. Germany, the West German constitution provides for a balanced budget.

Dr. HELLER. That is correct.

Senator BYRD. What is your—would it be wise for the United States to have such a provision?

Dr. HELLER. Not year-in, year-out.

And the German constitution, by the way—and I worked on that as a member of General Clay's staff of military government at that time—has some escape catches. They are allowed to deviate from the balanced budget concept in a period of recession. They have to compensate for it in their periods of prosperity.

Senator BYRD. Well, now, would that be a wise provision for the United States?

Dr. HELLER. I do not think we should lock ourselves in, Senator.

Senator BYRD. Well, you just said Germany was not locked in.

Dr. HELLER. No. I said they did lock themselves in. They have been getting away with it in this period of strong expansion. I think that they will find ways and means of relieving that requirement if they get into sustained weakness in their economy.

Senator BYRD. Well, let us get back to the United States. We have not had a balanced budget since 1960.

Do you think that is cause for alarm or not?

Dr. HELLER. Well, I think by some standards we have had some years in which the budget has been balanced. I say if we always ran a deficit in both periods of economic weakness and periods of economic strength, that would be a cause for alarm.

Senator BYRD.. That is what we have been doing.

Dr. HELLER. I do not have the numbers here. But by some standards, if we used the comprehensive national income accounts budget——

Senator BYRD. If you used the administrative budget, which is the way this country has figured things historically up until Lyndon Johnson changed it, and then it has been worsened under President Nixon, we have not had a balanced budget in the Federal funds account since 1960.

Dr. HELLER. If you use the administrative budget concept I would go along with that.

Senator BYRD. That is right.

Dr. HELLER. But I do think, Senator, if we are talking about the impact of the budget on the economy, we have got to look at the total inflow and total outflow of all Federal operations. And by that standard—I do not mean to say it is a proud record—but by that standard, there have been some surpluses since 1960, on the national income accounts basis. There have been some years of prosperity when we have taken in a total—including the social security payroll taxes—the Federal Government has taken in more than it has paid out. And I would agree——

Senator BYRD. That is only when you take into account the social security trust funds?

Dr. HELLER. That is correct.

Senator BYRD. If you do not take that into account, the Government has been running very heavy losses, and particularly in the last 6 years, particularly the fiscal year ending in fiscal year 1975, which budget the Congress is now working on. And in that 6-year period, the deficits will be $133 billion, which is 26 percent of the total national debt in that 6-year period.

Is that cause for alarm?

Dr. HELLER. As I say, it is cause for alarm if it means that you never, even in a period of strong economic activity, use the Federal budget as a restrictive influence on the economy.

Senator BYRD. We have had strong economic activity during that period of time.

Dr. HELLER. What I was going to go on to say is that in the fiscal year 1974, the fiscal year we are in right now, the budget pendulum had a substantial swing from deficit toward surplus.

Now, as far as the consolidated budget, the unified budget goes, it did not get across the surplus line this year, but we did move in a restrictive direction. But as I suggested earlier in my answer to your question, I think we should have moved farther under these circumstances, yes.

Senator BYRD. Having been a politician all of my life, I can understand the political desirability of Members of the Congress and members of the administration saying, well, we want to spend and give every group that comes in here as much as they want and spend as we want, but we do not have to pay for it, no one has to pay for it; we will just add it to the debt, and everybody will be fine.

Well, I just do not think things in the long-run will work that way. I think we are paying for these huge deficits by this 20 percent inflation or 20 percent deterioration in the value of the working man's paycheck, just as you indicated in your statement there. There has been a 20 percent deterioration.

Dr. HELLER. There has been, but I am not about to trace it——

Senator BYRD. I know you are not. That is why you have difficulty.

Dr. HELLER [continuing]. Entirely or even largely to the deficits——

Senator BYRD. Well, I am aware of that. I am aware of that.

Dr. HELLER [continuing]. In the public debt.

Senator BYRD. That is why—I have a minority view. Your view is the prevailing view around Congress. Congress thinks we do not have to pay for this stuff.

Dr. HELLER. My view is an economic view not a political view.

Senator BYRD. I understand yours is economic and, to an extent maybe some of the congressional views are economic, but they are also political. They are both. I think the economic view is wrong, and I think the political view is wrong. I just think somebody has got to pay for this stuff one of these days.

Dr. HELLER. Well, I think that—of course, I have long been an advocate of the proposition that you set your budget at a level that is right for the economy, and then you ought to match additional expenditures with additional taxation.

Senator BYRD. I am just trying to point out, Dr. Heller, that has not been done, and I have not seen many people advocating it. I have not seen many economists advocating that that be done.

Dr. HELLER. Well, I think if you could still accept 4-percent unemployment as a reasonable definition of full employment, you will note that the budgets for these 2 years would yield a surplus if we ran 4-percent unemployment in this country.

Senator BYRD. We have got 4-percent unemployment; have we not?

Dr. HELLER. No, we are at 5¼-percent unemployment now. That makes a whale of a difference in the amount of revenue that comes into the Government.

Senator BYRD. We were down to roughly 4 percent at one point. We still had a whale of a deficit.

Dr. HELLER. Well, this past year we touched 4.6-percent unemployment. For the year 1973, I guess we probably would average about 4.7 or something like that, and we got fairly close. We did not make it all the way.

Senator BYRD. Well, I admit that I am in a minority in my fiscal views, but I am just convinced that the people that are being hurt most are those whose paychecks are being reduced in value by these smashing Government deficits. I realize that most economists do not agree with that. I realize that most of my colleagues in the Congress do not agree with that, but I still think that it is logical that we cannot continue to spend way beyond what we take in without somebody paying for it. We are paying for it; the average citizen is paying for it, in my judgment, through inflation, which I think is the cruelest tax of all. It hits hardest those in the lower income brackets and those on fixed incomes, those are the elderly. And I think it is a very bad thing for the people of our Nation, and we are not going to get inflation under control, in my opinion, unless we get these huge Government deficits under control.

I do not expect you to agree with me.

Dr. HELLER. I hope we can disagree without being disagreeable.

Senator BYRD. Certainly.

Dr. HELLER. And in this case, I would go part way with you, as I have said, that deficits in periods of high employment are a source of inflation. Deficits in a period of low employment, high unemployment, are not. But I guess we will just have to agree to disagree.

Senator BYRD. You went farther toward my view than I had thought you would go.

Thank you, sir.

Senator MONDALE. Senator Dole.

Senator DOLE. I have no questions.

Senator MONDALE. Thank you very much, Dr. Heller, for a superb presentation.

Senator DOLE. Mr. Chairman, let me add, I am sorry I missed the statement. We had an Agriculture Committee meeting, and therefore any questions that I might have asked have probably been asked two or three times. I will forgo any questions.

Dr. HELLER. Thank you, Senator.

As you know, I did have a couple of prepared statements, one for this committee, one for the Appropriations Committee, which I am now going to depart for, if I may. So you can catch up on the supposed wisdom that I was dispensing this morning.

Senator MONDALE. Thank you very much, Dr. Heller, for a most useful presentation.

[The prepared statement with attachments of Dr. Heller follows:]

PREPARED STATEMENT BY WALTER W. HELLER, REGENTS' PROFESSOR OF ECONOMICS, UNIVERSITY OF MINNESOTA

In this period of economic discontent—plagued simultaneously by double-digit inflation and a side-slip into recession—your Committee is understandably perplexed as to the path of fiscal, economic, and social responsibility in taxation. On one hand, you are told that broad-based reduction would supply badly needed stimulus for a sagging economy and provide a significant antidote for rising unemployment. On the other, you hear that such action would aggravate an inflation that is already intolerable. You must wonder whether there is any way of fighting recession without paying an unacceptable price in worsened inflation.

Given the likely course of the economy in 1974 and the peculiar nature of our current inflation, I believe that a broad-based tax cut of moderate size—perhaps $6 or $7 billion in income and payroll tax cuts—could help cushion recession and speed recovery with only minor effects on the course of inflation this year.

To support this conclusion, one has to establish the reasonableness of three propositions:

First, that the economy is sliding into recession not because of materials shortages and supply bottlenecks but primarily because of a sag in consumer spending and in home buying, i.e., because of a lack in demand.

Second, that the kind of inflation we have this year—born of food and fuel price explosions, a world-wide upsurge in comodity prices, the one-time pop-up effect of removing price and wage lids, and the cost-push effect of accelerating wages and decelerating production—has a life of its own, one which will lose much of its vigor by the end of the year even if as much as $8 billion of net fiscal stimulus (including some action on expenditures) is pumped into the economy.

That the fiscal 1975 Budget does not already provide such stimulus—a conclusion which is shared, after close inspection of the budget numbers, by the Council of Economic Advisers, the Federal Reserve Bank of St. Louis, the Congressional Research Service of the Library of Congress, The Conference Board in New York—to name nothing but impeccable authority.

For the more detailed reasoning and facts that establish the validity of these three propositions, may I respectfully refer the Committee to the attached statement on "Budget Policy for a Soft Economy", which I am to submit to the Senate Appropriations Committee later this morning. I believe it makes a persuasive case that a prompt tax cut would be an *economically* responsible act.

That the kind of tax relief under discussion today—an increase in personal income tax exemptions, preferably buttressed by payroll tax relief for the working poor on the general pattern proposed by Chairman Long in 1972—would be *socially* responsible seems undeniable:

Before 1974 is over, inflation will have eroded the real value of the $750 exemption by more than 20% since it went into effect at the beginning of 1972.

Boosting exemptions on the pattern of either Senator Mondale's or Senator Kennedy's proposals would concentrate the bulk of the tax benefits at the middle and lower end of the income scale where recent inflation, especially in the form of surging food and fuel prices, has exacted a particularly heavy toll. It would help restore some of the badly eroded buying power of workers.

To reach those at the bottom of the income scale calls also for a step-up in social service programs (see the attached statement to the Appropriations Committee) and relief from payroll taxes for the working poor and near-poor. Payroll tax action toward this end is discussed below.

The social or equity case for tax relief in the form of higher income tax exemptions (and the introduction of payroll tax exemptions) is so strong that it would make sense even if the Congress were to match it with simultaneous tax increases elsewhere in the tax system.

But to give the necessary stimulus to a sagging economy, the proposed tax reductions would presumably *not* be matched by immediate counterbalancing tax increases. Would such action, then, be *fiscally* responsible in the sense of safe-guarding the revenue-raising power of the tax system for the longer run?

To answer this question, one should first be clear on the magnitudes of the cuts in the perspective of total individual income and payroll tax revenues. As calculated by the Brookings staff, revenue costs would be as follows:

Under the Mondale proposal—the $200 optional tax credit—the revenue cost would be $5.0 billion in calendar 1974 and $5.7 billion in 1975.

Senator Kennedy's $100 exemption increase proposal would cost $4 billion in 1974. If an increase to $1,400 in the low-income allowance were added to the Kennedy plan, the cost would rise to $4.3 billion.

Stepping the exemption up to $900 per capita in 1975 would increase the cost of the straight exemption increase to $6.3 billion in 1975, or to $6.9 billion if the low-income allowance were raised to $1,500.

As to the payroll tax, introducing a "vanishing exemption" in the form of a $1,300 deduction and a $750 per capita exemption which would phase out by $1 for every $1 of earnings above the basic allowance (i.e., a family of four would be exempt until their earnings exceeded $4,300 and would be fully taxable on earnings about $8,000) would involve revenue losses of $3 billion a year if limited to the personal contribution; $5.6 billion if *both* the personal and the employer contributions were covered in the plan.

Comparing these revenue losses with the expected total yields of income and payroll taxes, one finds the percentage erosion to be quite modest:

> Of the expected $120 billion yield of the individual income tax in fiscal 1975, the losses run from about 3% on the $850 exemption plan to just over 5% on the plan combining a $950 exemption with a $1,500 low-income allowance.
>
> Of the expected $86 billion of social security payroll taxes in fiscal 1975, the losses would range from 3½% under the modified Long plan covering only the personal contribution to 6½% if employer contributions were also covered.

Another measure—one that could provide some stimulus in the short run without any revenue cost in the long run—would be a modest cutback in over-withholding of income taxes, which now gives rise to refunds of about $24 billion a year. This move is attractive in priciple for dealing with the current weakness of consumer demand. But it involves technical complexities and might also run into resistance from taxpayers who use over-withholding as a means of forcing themselves to save.

To protect the integrity of the revenue-raising system in the longer run, Congress could couple its exemption boost with a firm pledge to compensate for the revenue losses by adopting revenue-raising tax reforms to be phased in during 1975 and subsequent years. The necessary funds could be raised by a substantial boost in the minimum tax on preference income plus a phasing out of most of the tax shelters for petroleum as price curbs on oil are progressively relaxed.

In short, the projected program would achieve immediate tax relief to stimulate the economy and aid those hardest hit by inflation and would later restore revenues by measures that would improve the structure of the tax system. That would be fiscal responsibility at its best.

Since the Committee on Finance will have heard and seen ample testimony on the proposal for income tax exemption increases, I should like to add a few thoughts about the proposal for social security payroll tax relief at the bottom of the income scale. Let me put my central concern in the form of a question: What possible justification is there for extracting nearly 6% (5.85%, to be exact) from the miserable pay of people in poverty and near-poverty status—without regard to family size at that—and another 6% from their employers (the bulk of which, it is widely agreed, also comes out of the hides of the wage earners)?

Even if the social security system were a true insurance system, I doubt that the present approach would stand any reasonable test of equity and logic. And as even a casual inspection of the wide disparity between in- and out-payments of the social security system reveals, it's *not* an insurance system in any rigorous meaning of that term. Basically, it is a transfer system whereby today's working population supports today's retired and disabled population. As the Brookings study, *Setting National Priorities, the 1974 Budget,* cogently put it:

"It is misleading to think of payroll taxes as individual contributions destined to be returned to the contributor at a later date; it is far more accurate to think of the social security system as a national pension scheme, whose benefit levels are determined by the national priority accorded to the needs of the retired, the disabled, and survivors and whose costs are paid for by a tax on current earners. Once this point of view is accepted, there is no logical reason why the tax used to support the pension system should impose hardship on the poor."

As to the appropriateness of initiating payroll tax relief in 1974 on the general pattern of the Long plan, one should remind oneself of three vital facts of life about the 1973–74 economic environment, namely:

First, that general inflation, plus payroll tax increases, drained away 4% of the real spendable earnings of workers from January 1973 to January 1974;

Second, that because of the upsurge in food, fuel, and housing prices, today's inflation is eating away a much higher percentage of low incomes than of high incomes; and

Third, total demand—and especially consumer demand—has fallen below the U.S. economy's overall capacity to produce, thus making it a relatively safe time to release added funds into the economy.

Given the dangers of a speed-up in the price-wage spiral, 1974 is also a particularly appropriate time to provide tax cuts in the form of payroll tax relief coupled with increased personal income tax exemptions. Nothing hits labor's real take-home pay as visibly and pervasively as payroll taxes and income tax withholding. And nothing would be more clearly recognized as "reparations" for the ravages of roaring food and fuel price inflation than a combination of income and payroll tax relief of the type that I have discussed, what labor gets as tax relief would cut down the pressure for king-sized catch-up wage settlements. This "safety valve effect" could be significant in taking some steam out of any new price-wage spiral.

In sum, combined income and payroll relief could help redress the grievances of inflation, improve the structure of the tax system, and help cushion the downturn now and support recovery later.

There will be no lack of fears, real and fancied, brought to bear on this proposal. Some will say that Congress can't get it all together fast enough to cope with the 1974 recession. Others will say that the economy can't stand *any* stimulus without breaking out in a new rash of inflation.

Let me close by expressing my confidence (a) that the Congress can and will act if it sees the need, (b) that both the social and the economic need for action *is* compelling and is *not* going to fade away quickly, and (c) that our $1.3 trillion economy has the capacity to absorb $6 to $8 billion of net fiscal stimulus and put it to good human advantage, with only a minor to miniscule impact on inflation.

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## Budget Policy for a Soft Economy

(By Walter W. Heller, Regents' Professor of Economics, University of Minnesota)

Mr. Chairman and Members of the Committee, as the Committee on Appropriations grapples with the awesome implications of a $304 billion budget for the social, economic, and defense needs of the country, it is also making critical decisions affecting the course of the American economy. The total amounts spent relative to the amounts received, as well as the composition of the Budget, will have a lot to do with the strength and health of the U.S. economy, with the duration of the current downturn and the speed of its recovery, and with the outlook for inflation in the longer run.

In setting its overall budget course, the Committee has to judge first of all, whether Mr. Nixon's proposed fiscal 1975 Budget is deflationary or inflationary, whether it will stimulate or restrain a tiring economy, and whether it will help or hinder economic recovery.

On the surface, it has the earmarks of a stimulative budget. But is it really? Does it reverse the swing of the budget pendulum, which went from a clearly expansionary stance in fiscal 1973 to one of economic restraint in fiscal 1974?

A close inspection of the economic import of the Budget numbers by competent outside observers clearly supports Mr. Nixon's statement in his Budget message that "the recommended budget totals continue this policy of fiscal restraint as part of a continuing anti-inflationary program."

It is true that, with spending scheduled to rise by nearly $30 billion, and the deficit to double from $4.7 billion to $9.4 billion, the fiscal 1975 Budget gives the *appearance* of stimulus. But careful study shows (a) that the projected increase in federal spending for FY 1975 is actually *less* than in FY 1974 and (b) that the rise in the deficit is caused by a softening in the economy, not by any letting down of our fiscal guard. These conclusions have the backing of respected authority:

The Budget document itself shows that on a full-employment basis, the Nixon budget for FY 1975 would increase the surplus from $4 billion to $8 billion (unified budget basis).

On a national income accounts basis, the Council of Economic Advisers projects the full-employment surplus as holding steady at $6 billion in fiscal 1975.

The St. Louis Federal Reserve Bank, which keeps a running account of the Federal budget in terms of the national income accounts, projects a full-employment surplus rising from $2 billion in the first half of calendar 1974 to $9 billion in the second half and $12½ billion in the first half of 1975.

The "Overview of the Budget" prepared by the Congressional Research Service of the Library of Congress concludes that "Fiscal policy for fiscal 1975 is planned to continue to exercise restraint on the economy."

Michael E. Levy of the Conference Board notes that if one adjusts net budget outlays by adding back in the "proprietary receipts from the public" (like rents and royalties on Continental Shelf lands) the projected gross spending increase for fiscal 1975 is less than the increase for 1974 ($20.5 billion against $32.1 billion). His own measures show no significant change in the "fiscal thrust" of the Federal Budget between fiscal 1974 and fiscal 1975.

Even allowing for some slippage in the budget process, then, it seems reasonable to conclude that, contrary to surface appearances, the fiscal 1975 Budget offers little or no net stimulus to the economy.

This leads directly to the second question: *Should* the Budget be stimulative under present circumstances? Should adjustments be made in expenditures or taxes in such a way as to cushion the blow of rising unemployment and restore consumer buying power eroded by inflation, especially in the lower income brackets? The answer, it seems to me, is clearly "yes."

One should proceed promptly on both fronts—not massively, but in moderation. Given the reality of the present decline in the economy and taking full account of the unusual nature and likely path of inflation, prompt action to make the Budget moderately more stimulative would represent both economic and fiscal responsibility.

There is rather widespread agreement on the general economic scenario for 1974. Most forecasters, including those in the White House, expect the first half to be plagued by economic downturn and double-digit inflation followed by a second half in which the economy will turn up and inflationary pressures will begin to ease.

As to the nature of our current downturn: one finds that while *supply* shortages generate both headaches and headlines, a closer look reveals unmistakeable signs of a shortage of *demand*. Battered by tight money and beleaguered by runaway food and fuel prices, the consumer has pulled in his horns:

For consumers, January was perhaps the cruelest month. While consumer prices were racing upward at a 12% annual rate, personal incomes dropped $4 billion. For non-farm workers, real spendable earnings were down 4% from a year earlier.

The gasoline shortage has converted an expected decline in auto sales into something akin to disaster. The average drop in overall sales of domestic cars so far this year is between 25% and 30%, but the plunge in demand for standard models is closer to 50%.

On durables other than cars, consumption has been falling in real terms for nearly a year, while consumer spending for non-durables and services has kept only a trifle ahead of inflation.

Residential construction has dropped from a $60 billion rate a year ago to not much more than $45 billion today.

No quick rebound of consumer spending is in sight. Exploding oil prices are still working their way through the economy, soaking up $15 to $20 billion of consumer purchasing power in the process. That's the amount of tribute the American consumer has to pay foreign and domestic producers of oil. In the short run, very little of the buying power thus siphoned off will reappear in the economy either as demand for U.S. exports or as increased dividends and capital spending by the U.S. oil industry.

Even with an end to the Arab embargo, our economy will continue to suffer the paradox of "oil drag"—a cost *inflation* of prices and a tax-like *deflation* of demand. Indeed, with more high-priced foreign oil coming into the country, the number of consumer dollars siphoned away from other purchases will actually rise. Only as the oil producers recycle more of their bonanza into the economy—and later, as oil prices recede—will the oil drag begin to let up.

To slow the slide of the economy toward recession and to speed the process of recovery, then, calls for prompt budget stimulus. But in the face of ferocious inflation, would the appropriations committees and taxing committees of Congress be acting responsibly in launching such stimulus? Won't a lot of the stimulus run off into even more inflation? No one can deny that whenever consumers step up their buying, sellers are in a better postion to hold or raise prices. But in the present setting, a moderate fiscal stimulus—say $6 to $8 billion of combined tax relief and expenditure increase—would have very little effect on the inflationary forces now at work in our economy:

Taking the economy as a whole, the excess demand of 1973 is a thing of the past. The economy now suffers from deficient demand, and particularly from weak markets for consumer goods and services.

The primary thrust to our recent inflation comes from skyrocketing food and fuel prices which, as Arthur Burns has pointed out, "hardly represent either the basic trend in prices or the response of prices to previous monetary or fiscal policies." As these pressures begin to burn themselves out later this year, they will leave a legacy of high but less rapidly rising prices.

Inflation today also represents a lagged response to the boom in world commodity prices other than food and fuel. Even after the economy turns the corner, these pressures will also ebb, much as they did after the price explosion that was set off by the Korean boom in 1951.

Another part of today's inflation represents the one-time "pop-up effect" associated with the removal of Phase IV's price and wage controls.

The sharp rise in unit labor costs also plays a role. These costs moved ahead at a 9% annual rate in the last quarter in 1973. They will get worse as wages accelerate and productivity slackens in recession. Once recovery gets underway and demand and output rise, productivity will again increase.

In 1974, in other words, inflation has a life of its own nourished not by excessive demand but primarily by a variety of cost factors that lie beyond the reach of fiscal and monetary management. The great bulk of a prudent budgetary stimulus under these circumstances would express itself not in higher prices but in higher output, more jobs, and increased income. Even with a moderately stimulative fiscal and monetary policy, the rate of inflation should ease the 6% or less by the end of 1974.

Against this economic background, one can consider the components of a program of fiscal stimulus in the range of $6 to $8 billion. It would be reasonable to let the following objectives serve as guides in composition of the program:

To generate jobs that will quickly take a significant number of people off of the unemployment rolls.

To take some of the sting out of unemployment for those who remain on the rolls.

To compensate wage earners for the loss in real earnings they have suffered in the past year—and thereby to ease some of the mounting pressures for king-sized wage settlements.

To provide special relief for the poor and near-poor whose living standards have suffered most from the run-up of prices of food, fuel, and shelter.

Action that might be taken in the area of tax relief centers on the income and payroll taxes. I have covered these possibilities in some detail in my statement today before the Senate Finance Committee. A copy of that statement is appended for the information of the Committee on Appropriations. In brief, I examined the following:

An adjustment in the social security payroll burden, especially to shield the working poor. This would cost about $8 billion.

An increase in income tax exemptions, either in the form of the flat $100 increase proposed by Senator Kennedy (which would cost about $8 billion) or in the form of a conversion of the exemption into an optional $200 credit as Senator Mondale has proposed (which would cost about $6 billion).

The adjustment of over-withholding—which now gives rise to refunds of about $24 billion a year—to effect a one-time cutback in federal income tax collections—a move that is very attractive in principle for dealing with our current recessions, but which involves technical complexities and might also run into resistance from taxpayers who use over-withholding as a means of forcing themselves to save.

To preserve the longer-run revenue-raising power of the tax system, it would be important to accompany income and payroll tax cuts with a pledge to recoup the revenues in due course by such moves as (1) a removal of oil tax preferences which are indefensible in the face of huge price increases enjoyed by the oil industry; (2) a major increase in the minimum income tax; and (3) the tightening or closing of other tax escape hatches.

Since it can be quickly translated into reduced withholding and larger paychecks, tax relief probably offers the best opportunities for quick anti-recession action. But significant contributions can also be made from the expenditures side. Indeed, in several areas, increased budget expenditures can zero in on the unemployment problems of a soft economy with greater precision than tax cuts.

The direct provision of jobs through more generous funding of the public service employment program (under Title II of the Comprehensive Employment and Training Act of 1973) would be a particularly effective measure. The President has requested only $250 billion in his fiscal 1974 Budget and $350 billion in his 1975 Budget for this purpose—to be spent in areas where unemployment exceeds 6½%.

The 6½% unemployment threshold is unduly high, and the amounts requested by the White House for the program are unduly low. Reducing the threshold to 6% or even 5½% and boosting the budgeted amount to at least $1 billion for the next twelve months would yield an excellent payoff at relatively low cost:

There is nothing better one can do for the jobless than to give them a job—that's precisely what this program does.

In matching jobless people with jobs that need doing at the state and especially the local level, the program provides needed services for the public.

It contributes some welcome insulation against recession and support for recovery.

Some concern has been expressed that by the time the program gets into full swing, much of the need for it may have passed. But the 1970-71 experience has shown that it can be activated rather quickly. Given that backlog of experience, together with the 1973 legislation, one should be able to move even faster in 1974-75. One should also bear in mind that unemployment—which is likely to rise to 6% or so by summer—will hang high even after economic recovery starts. Real growth at an annual rate of over 4% will have to be sustained for some time before the private economy generates enough job opportunities to bring unemployment down to tolerable levels. So there is little or no risk that even a sizeable public service employment program will overstay its economic welcome.

Other programs already before the Congress also offer the kind of job support the economy badly needs:

The balance of the manpower training and employment programs, budgeted at about $3 billion each for fiscal years 1974 and 1975, should be funded as promptly and generously as possible.

New budget authority for social programs—for health, education, and housing—is programmed to drop by $2 billion between fiscal 1974 and 1975. Especially in housing, it seems that a period of economic softness, unacceptably high unemployment, and painful erosion of the real buying power of low income groups would be a time to step up, not squeeze down, federal efforts.

Action to raise the level and extend the duration of unemployment insurance benefits is overdue. The President's April 1973 proposals, supplemented by his 1974 request for extension of benefits for areas experiencing "particularly high levels of unemployment over the next twelve months" should be speedily enacted—indeed, they are not generous enough under present circumstances.

A rather different set of spending possibilities should also be explored. I recall that in the recession of 1960–61, President Kennedy asked us to survey the possibilities for speeding up useful expenditures across the whole range of federal programs. Even after weeding out those that represented ingenious but unsound attempts by the agencies to feed at the recession trough, a respectable list of useful and quick job-creating opportunities was generated.

Maintenance work on national forest and park roads and facilities is one example. Today, one would surely add maintenance and repair work on Amtrak facilities and roadbeds of railroads slated to go into the new national rail corporation. Past experience suggests that large public works undertakings are not promising candidates for this list, but even here, such organizations as the Associated General Contractors of America believe that they can demonstrate untapped opportunities for speedy action. Although the sum total would not be huge, spending speed-ups—like the public employment program—can efficiently combine job creation with the provision of badly needed public services.

Although it may be presumptuous to specify a particular menu from this smorgasbord of possibilities, it is irresistible to try. A broad but balanced quick-action program of fiscal stimulus of $8 billion or so might be selected from the following elements:

Perhaps $2 to $3 billion of quick added spending on more generous unemployment compensation and public service employment and other government service programs with a high-job-creating content.

A boost in the income tax exemption providing about $4 billion in tax relief focused especially on the middle and lower-middle income groups, thus helping to restore some of the blue collar workers' eroded buying power.

Social security payroll tax relief for the working poor and near-poor of the type proposed by Senator Russell Long, at a cost of about $3 billion.

Two final observation are in order:

Since the foregoing program adds up to more than $8 billion—and since the Congress might wish to do even more for the blue collar worker and especially the working poor—an immediate increase in the tax liabilities of the oil industry beyond the $3 billion proposed by the President could provide the needed offsetting revenues to keep the net loss near or below the $8 billion mark.

In the light of the $15 to $20 billion of demand-absorption by exploding petroleum prices, one might wonder why the fiscal stimulus should be held to only $8 billion or so. The answer is two-fold. First, one hopes that the $15 to $20 billion will shrink as oil prices recede and as some oil monies reappear in the economy. Second, given the existing economic uncertainty, one should take the prudent course and allow a considerable margin for error.

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[From the Minneapolis Tribune, Mar. 17, 1974]

## Butz Aides Eating Crow Over Food's Share of Income

(By Frank Wright, Staff Correspondent)

WASHINGTON, D.C.—The Secretary of Agriculture, Earl Butz, used to have a favorite statistic.

It was 15.6 percent.

He used to go around the country last year, after food prices started to skyrocket, telling people that they ought to be happy because they still were spending only 15.6 percent of their disposable income on what they ate and drank.

Butz doesn't do that so much any more.

For one thing, food prices, which rose about 15 percent last year, are expected to go up another 12 percent this year. These are increases far in excess of those in the rest of the economy, except for gasoline, and so the portion of disposable income spent for food may now be higher than Butz would like to crow about.

More importantly, however, experts steadily have shot more and more holes in the way in which that 15.6 percent was tabulated.

The first attacks on its validity came from consumer advocates outside the

Department of Agriculture and later from critics on Capitol Hill. One of the latter, Rep. Benjamin Rosenthal of New York, chairman of a Democratic Study Group task force on consumer matters, called it "totally fictitious."

Of late, experts within Butz's own department have been taking the same view, in public, after grumbling about the statistic in private for a long time.

Two staff members from the department's Economic Research Service wrote several months ago that the percentage is "based on aggregate data for the entire country and differs considerably from that of an average family."

The department's director of agricultural economics, responding to a Rosenthal inquiry, has acknowledged that the figure is "not an accurate measure for a typical . . . American . . . family."

The latest commentary is from Betty Peterkin, a staff economist at the department's Consumer and Food Economics Institute, who said skepticism about the figure is justified.

Many families she wrote in the 1974 winter issue of the institute's Family Economics Review, do spend more than 16 percent of their pay for food, including families that are budget-conscious. In addition, she said, "many of them must spend more than 16 percent if they are to have nutritious and satisfying meals . . ."

The trouble with the 16 percent—or 15.6 percent that Butz has quoted—is that it is based on statistics that are weighted with too much income, in the critics' opinion. The basic figures are Department of Commerce annual estimates of total disposable income for the nation and a similar estimate of personal consumption expenditures for food.

Those two figures are developed from business and government sources, rather than studies of actual expenditures of individual families.

The fault with the income figure, according to Ms. Peterkin and others, is that it includes items that are not considered income by the normal family.

Among them are the receipts of nonprofit institutions that spend little, if anything, for food and nonmoney items such as the rental value of owner-occupied homes. These tend to raise the income figure and reduce the percentage spent for food.

Ms. Peterkin prefers statistics based on studies of actual families and how big a share of their income they have to spend to provide a useful diet.

Not having research data compiled in that manner, she has attempted an estimate based on the cost of food at home for one of the three standard Department of Agriculture food plans.

The plans—low-cost, moderate-cost and liberal-cost—supposedly consist of nutritionally good diets that reflect the eating patterns of low-income, middle-income and high-income families. Costs for the plans cover food for all meals and snacks and assume that all food is eaten at home or carried from home in packed lunches.

The accompanying table, according to Ms. Peterkin's article, shows the percentage of given income that would have been spent for food in August 1973 by families following the low-cost plan.

The basic conclusion to be drawn from the table, according to Ms. Peterkin, is that there are vast differences in the percentage of income required to provide a diet of equal quality for families of different size and composition.

For instance, big families spend a higher percentage than small ones, older children cost a higher percentage than younger ones, and so on.

PERCENT OF INCOME REQUIRED FOR LOW-COST FOOD PLAN, U.S. AVERAGE, AUGUST 1973

| Family size and composition | Annual money income after taxes | | | | |
|---|---|---|---|---|---|
| | $3,000 | $6,000 | $10,000 | $15,000 | $20,000 |
| Couple, 20 to 35 yr | 42 | 21 | 13 | 8 | 6 |
| Couple, 55 to 75 yr | 35 | 17 | 10 | 7 | 5 |
| 3, couple and 9 to 12 year-old-boy | 59 | 29 | 18 | 12 | 9 |
| 4, couple and two 3 to 6-yr-olds | 61 | 31 | 18 | 12 | 9 |
| 4, couple and 9 to 12 yr-olds, boy and girl | 71 | 35 | 21 | 14 | 11 |
| 4, couple and 2 teenage boys | 83 | 42 | 25 | 17 | 12 |
| 5, couple and 1 3 to 6-yr-olds, 9 to 12-yr-old boy and girl | 81 | 40 | 24 | 16 | 12 |
| 6, couple and 2 3 to 6-yr-olds, 9 to 12-yr-old boy and girl | 88 | 44 | 26 | 18 | 13 |

Senator MONDALE. Our next witness is Dr. Arthur Okun, senior fellow at the Brookings Institution.

## STATEMENT OF ARTHUR M. OKUN, SENIOR FELLOW, THE BROOKINGS INSTITUTION

Dr. OKUN. Thank you, Senator.

In many respects my analysis parallels that which Dr. Heller presented. In some respects it diverges from the discussion that Secretary Shultz presented yesterday. And I will try to adapt my prepared statement and avoid repeating things you have already heard, and perhaps bring out some of the areas of agreement and disagreement.

Like Dr. Heller, I would emphasize that economic activity is sagging in the United States today. I think in large measure the bad news on economic activity reflects the oil embargo and the ensuing escalation of petroleum prices. I think we were in pretty good shape last fall and were heading for a quite acceptable and desirable slowdown from an earlier hyperactive boom. But after colliding with the oil embargo, the welcome slowdown turned into an unwelcome tailspin.

I think Federal allocation policies on pertoleum deserve some credit for preventing the oil shortage from having major disruptive effects on industry, for heading off the wave of store, plant and office closings that seemed to be on the horizon. The shortage, as a result, was confined largely to consumer use and particularly to the gas tank in the family car. And as a result, the way it affected the economy broadly was primarily by weakening the demand for products related to gasoline, and especially automobiles.

Now, that collapse in new car sales is just beginning to spread to other industries that supply products to Detroit. We know that is going to happen. These are prospective damaging secondary effects and they are an important negative element in the economic outlook for the months ahead.

There is even a second and larger negative factor in that outlook, namely the impact of higher fuel prices on consumer demand for other products. It is absolutely essential to realize just what a huge toll fuel inflation has taken on the real purchasing power of the American consumer. It now seems likely that directly and indirectly the American consumer will spend $20 billion more on his petroleum products and get less product in 1974 than in 1973.

In effect, the petroleum shortage has imposed a tax on the consumer. You did not enact a tax increase on the consumer, but the consumer in effect is paying $20 billion more, not to the Federal Treasury, but to the oil producers at home and abroad.

Now, we know something about the way that affects the economy. The consumer responds to such increases in the cost of essential items by tightening his belt generally. He has to cut his consumption of discretionary items ranging from movie tickets to television sets. It takes time for such adjustments to be made by the consumer. His first response to this kind of a situation is to take it out of his savings. He cannot do that for very long, and that is why there are things that are not visible now that are simply bound to occur in the months ahead.

The fuel price drain is an inevitable depressive influence that will increasingly hold down production in consumer industries across the economy as the year progresses. The higher payments to countries that ship oil to the United States and the higher payments to the domestic oil industry are the equivalent of a huge tax on the consumer, and they have to force cutbacks in other areas of consumer spending.

And those incomes earned by petroleum producers abroad and at home are not going to flow into the spending stream to create jobs or output in the United States during the foreseeable future. There will be some increase in investment by the domestic industry, but the industry is probably ready to invest all it can, given the managerial and physical limitations on the speed with which capital spending can be geared up.

The nations that ship oil to the United States will ultimately spend some of their increased revenues on U.S. products. But that, too, will take a considerable period of time. In the interim that money will be a net drain out of the U.S. spending stream. It is as though it were taken away from the public and put into the bank and sterilized there and not used for productive purposes.

Now this diagnosis, I think, points to a clear prescription for providing additional fiscal support to the U.S. economy. Only the Federal Government through its tax policies can make up for the huge oil tax that has been levied by the oil producing countries. Particularly, we need to alleviate the pinch on consumer purchasing power.

At a minimum, such support will help to ensure the beginnings of a recovery by the end of 1974. I really see virtually no risk of such a strong self-generating upsurge in the economy that additional fiscal support would be risky and inappropriate. At a maximum, such a measure might prevent a prolonged and sharp slide in employment and output.

I think a well-timed, broad-based cut in consumer taxes would be the best way to provide that fiscal support. In gauging the appropriate magnitude of such a measure, I am assuming that the expenditure side of the budget for fiscal year 1975 will not turn out to be very different from what the administration is proposing.

Given that assumption, I conclude that a tax cut of about $6 billion at annual rates would be large enough to be constructive and small enough to avoid excessive fiscal stimulus under any plausible economic scenario.

The biggest issue in taking an antirecessionary supportive measure is the possible impact on the Nations serious problem of inflation and I have given this the most careful professional consideration that I can, and I come out feeling particularly confident today that the response of the economy to a tax cut will increase output and employment, rather than add to inflation.

We are talking about a tax cut that will not even reduce unemployment from current levels. At most, it is an effort to limit the deterioration in economic activity that is bound to occur in the months ahead. We are talking about supplying a landing net for a recessionary economy and not a launching pad for a new, unsustainable boom.

When the tax cut bolsters consumer demand, the economy will have ample labor and plant capacity to meet and greet that spending. While a number of shortage areas linger on today from the boom of

1973, those, except for food and fuel oil, will continue to vanish during the first half of 1974 as rapidly as they emerged during the first half of 1973.

The economy's operating rates will be significantly lower by mid-1974 than they were late in 1972, when lumber was the only product with a significant shortage anywhere in the economy. Since only a trivial part of additional consumer income is funneled into the demand of food, the tax cut will have virtually no effect on food prices. In the case of petroleum, price controls should insure that any increase in demand——

Senator MONDALE. Trivial?

What is your estimate of the percentage of a dollar that goes toward food?

Nineteen, twenty percent?

Dr. OKUN. I think on the average the country pays about 20 percent of its income for food. On the margin of extra dollars that number is much lower. It may be 5 or 6 cents per dollar.

Senator MONDALE. In other words, additional dollars would not be spent at that same portion, 20 percent?

Dr. OKUN. Not nearly the same percent. This is really the difference between the essential items and the discretionary items in the consumer budget. People buy what they have to have, in large measure, even when their incomes are cut back.

Senator MONDALE. Would you say the same about petroleum?

Dr. OKUN. No, I would not. I think there is evidence that what we call the income elasticity of demand, the way that demand moves when income changes, pretty nearly parallels the change in income. I think there is the most important savings——

Senator MONDALE. What percentage of the dollar goes to gasoline and petroleum products?

Dr. OKUN. As I recall, the weight of those products directly and indirectly in the Consumer Price Index, which is supposed to reflect the percentage of income spent on them, is between 6 and 7 percent.

I think price controls are really an important safeguard against making the fuel inflation even worse.

Senator DOLE. Could I interrupt there?

Senator MONDALE. Certainly.

Senator DOLE. You would suggest a continuation of price controls on petroleum after April 30?

Dr. OKUN. My understanding was that the legislation enabling controls of petroleum does not currently expire.

Senator DOLE. It does extend beyond that, but I think there have been some of us who wondered if that was the right policy.

But you are in accord with the prolonged extension of controls in that area?

Dr. OKUN. Well prolonged certainly beyond April 30, Senator. I think the alternative ~~there~~ might well be to take that $20 billion oil tax that I talked about and double it. I do not know where the market clearing price of gasoline would be today, but I suspect that it is not a nickel above where we are, and not a dime—more likely a quarter above where we are. That would be $25 billion, the price of every other petroleum product would jump too.

I think it would have fantastic inflationary consequences, fantastic consequences on the real income of the American consumer if we were to let those prices go entirely in that short a period of time. I would hope ultimately that we would certainly come back to a market-determined price of petroleum products.

Senator DOLE. What about extension of control in other areas beyond April 30?

Dr. OKUN. Well, my own view is that the enabling authority for such controls are a desirable thing for the administration to have it. Indeed, I have read every day about ingenious uses that Mr. Dunlop makes of his control authority, often to getting agreements which exempt industries, but where the basic enforcement technique on his nonaggression pacts is the ability to slap the controls on if people do not play by the rules. And I am puzzled by his eagerness to engage in unilateral disarmament.

It seems to me that the kind of inflation we have this year is not one where a general application of price controls or wage controls can do us very much good. But I think there are selected areas outside of petroleum where the existence of the controls, their judicious use and their judicious nonuse, makes a good deal of sense. And therefore I am reluctant to see the authority lapse on April 30 as the administration is proposing.

Senator DOLE. I understand there is not much response, so far at least, from the House Banking and Currency Committee. At least the story this morning would indicate that there is no great enthusiasm for controls. That may change.

Senator FANNIN. Mr. Chairman?

Senator MONDALE. Senator Fannin.

Senator FANNIN. The $20 billion more in petroleum products, the great amount of that is not spent by the consumer directly. For instance, perhaps less than $5 billion of that is involved in gasoline that is used by a passenger car. Not much of that is used in commercial and industrial utilization. Of course, part of that is passed on to the consumer. But I think we should put it in proper perspective that we are not talking about how much this hits the small low-income person—low-income person, I did not mean small—but low-income person. It is an entirely different factor than what many people think about when they say, well, we are passing on only $20 billion.

The shortage of natural gas has created the problem of the utilization of much of this $20 billion.

Dr. OKUN. I would certainly agree, and I would want to be cautious in emphasizing, as you are suggesting, that this is a combination of direct and indirect impacts. But perhaps I should also emphasize that the low-income consumer is not immune to indirect impacts. He pays a utility bill, which reflects a higher cost of energy. He pays for the freight in the products he buys from the department store and the supermarket. And I am assuming that business will, within a period of 3 to 6 months after experiencing higher freight costs, higher energy costs of its own, pass that on in the form of higher prices to the consumer.

Senator FANNIN. That is correct. Of course, the utilities will need to go to their commissions in the State and all. So whether that will be passed on this year and whether that would be passed on to the low bracket consumer or not is another factor.

I know that the trend is to try to hold and to carry that on to the industrial user to the greatest extent possible, the commercial industrial user. But still, then, that is reflected at some point along the way to the consumer. I realize that. But I think that the amount that is passed on to the consumer this year is going to be much less percentagewise than it will be as the years go by if we have this same problem to contend with.

Dr. OKUN. Yes.

Let me just try to conclude briefly. It is my conviction that what this country does not need to stop inflation is more unemployment. The problem does not lie in labor markets. It does not lie in wages.

To maintain the same fiscal policy this year, it seems to me, that we had last year is really applying the same prescription when the disease has basically changed. The budget that we have been handed by the administration would have been a proper and appropriate budget, if not for the energy crisis, if not for the oil tax on the consumer, and if it would have been right in that instance it cannot be right with the oil tax on the consumer.

Instead, it is recommending ineffective and expensive medicine to hold down the economy. I think the difference could well be the difference between 6.5 and 3.5 percent unemployment rates at year-end, and that could cost us $40 billion in our rate of GNP without reducing the rate of wage-increase in this country by as much as one-tenth of 1 percent.

In fact, I would argue that, by evidencing some concern and some effort by the Government to alleviate the acute cost-of-living squeeze on the worker, a tax cut may have beneficial effects in preserving the recent moderate behavior of wages.

But I do not think that a supportive tax cut that really is meant to offset only part of the tax collected by the petroleum producing countries is going to exacerbate the inflation problem. We have a very serious inflation problem. It is serious enough to do a lot of other things. I am a little puzzled by the administration's posture. Our President just vetoed a proposal that would have saved the country $3 billion on the pricing of new oil, raising the problem of the incentive effects associated with pricing oil at $7.09 a barrel.

And yet the administration has a tax proposal up before the House which would tax away from the $10 price, say, of new oil, so much as to reduce the net yield to the producer to $6.50.

Senator FANNIN. Mr. Chairman, I would like to tell the gentleman that as far as the $10 for new oil, we are only talking about less than 30 percent of the oil. The average is around $6.35, so you are not talking about the amount of money that you are utilizing there. And furthermore, we are getting oil that otherwise would have to be imported at a much higher rate.

So when you are discussing that, and you talk about the new oil and every barrel of new oil is coming in at less. That is, it is being furnished to the market at a lesser cost than what we would have to do as far as imported oil is concerned. So I think your figures are completely off in that category. You just must realize that we are getting additional oil by giving this incentive, and that means that for every additional barrel of oil we do not have to import a barrel at a higher price.

Dr. OKUN. I would certainly agree that it is important to maintain the incentive on new oil. I think it is a question of at what price that incentive is jeopardized. I recognize clearly that the bill that was vetoed by the President raised issues of controlling prices, only for new oil. My point simply is, I do not understand the administration's position on this at all, Senator.

Senator FANNIN. Well, let me explain it, not the administration's position, but the position we took that fought for the veto, because the stripper wells are 350,000 in the United States. They average 3.3 barrels per day. That is approximately one million barrels of oil. It is calculated that there is a possibility within 6 months from now these stripper wells, the price stays as it is now, that they can double that production. That would be another million barrels of oil, one million more, and that is oil is being sold with the overall average of around $6.35 of old oil.

Now, if another million barrels came in it would raise it just about another dollar. It would raise it up, the overall average, about $7.35. We cannot buy oil from the other countries of the world at that price.

Dr. OKUN. Which is part of my puzzle about the consistency of a position which says, it is wrong to roll back the price to say $7.09, which would have been the upper limit in the energy bill, and at the same time it is right to tax away $3.50 on an excise tax from 10 dollar new oil, which leaves the producer $6.50. If the producer needs more incentive than a $7.09 price provides, then how can you have enough incentive with the administration's 85 percent excise tax on all revenue above $6.75? That would leave him with about $6.50, as I calculate it, based on the present rates.

Senator FANNIN. Well, if he had money in exploration and development, he would receive money for that.

Dr. OKUN. That was not in the bill as originally proposed.

Senator FANNIN. Well, that is based upon that which is being proposed today.

Dr. OKUN. I guess the only general point I would make is that to the extent that there is any possibility of holding down prices, of saving funds in this area, the place where that belongs is in the consumer's pocket and not in the Federal Treasury, as I see it. I just do not understand the logic of wanting to tax rather than to decide what price is necessary to provide an adequate incentive.

Senator MONDALE. Would you yield there?

Senator FANNIN. Yes, but may I just answer that one point, Dr. Okun.

The reason for this is to see that the consumer has product, No. 1, that he has product at the lowest price possible, and he can have that product if we can produce it domestically. Not only will he have that product at a lower price than we have to buy it from foreign countries, but we also have jobs and opportunities for people in this country. There are taxes involved. There are jobs, as I say, involved.

So why is it better for us to give the incentive to produce in this country?

Dr. OKUN. I would agree fully with that, and I do not really think that is inconsistent with my judgment that, to the extent that any measures are to be taken to deal with transitory high prices of petroleum that would reduce the return to the producer, let us decide either we are doing nothing on that account or we are doing something in that direction. However much we do in that direction, let use leave that money in the consumer's pocket and not put it in the Federal Treasury. If we are going to take any money——

Senator FANNIN. I am not disagreeing with the consumer—having it in the consumer's pocket. I want to, but I want to have a supply available for him. The only way we are going to do it is to give the incentive to our domestic producers.

I thank you, Mr. Chairman.

Senator MONDALE. It is my impression that the administration is really pursuing a rationing by price strategy on energy, and with a restrictive budget pursuing an unemployment strategy to restrain what they think is a surplus demand economy. And both ways the consumer and the average worker pays. He pays through higher prices and he pays through rising unemployment and a reduced workweek.——

Dr. OKUN. I would agree with that. I will raise another controversial issue.

Senator FANNIN. Mr. Chairman, you are not talking about the same subject I am talking about. As far as the oil industry, that certainly is not true.

Senator MONDALE. If you say that the way to take care of very high oil prices is with an excess profits tax what you are saying is that the consumer will continue to pay very high prices, but we will skim part of that and put it into the Federal Treasury. Insofar as the average consumer is concerned the price is the same, and he in theory would be looking for ways to reduce consumption. And I think that is consistent with what I believe is the basic strategy of this administration, to wit, price rationing. That is what I think is going on.

Senator FANNIN. Well of course, we could argue that all day. If the money is put in the Federal Treasury, then less money has to be collected by taxes. So you could argue that all the way through the tax program. But what we are talking about and what I was challenging was the basis that you are utilizing on oil, because we would have had less oil produced. Instead of having a million barrels produced by these stripper wells, it might have been cut to 500,000 barrels a day, and that would have been disastrous.

Consequently, we were trying to go in the other direction and given an incentive to produce 2 million barrels a day instead of the 1 million barrels a day.

Senator MONDALE. I do not know of anybody who does not want enough incentive to encourage that production. The question is, when is enough enough?

Senator FANNIN. You see, the $7.09 was not even assured. Immediately they would have gone back to $5.25. Then they would have had a process of——

Senator MONDALE. No, I do not know of anybody that is talking about $5.25.

Senator FANNIN. The bill provided for that.
Senator MONDALE. Not on new oil, no.
Senator FANNIN. The bill provided to go back to $5.25 for all oil.
Senator MONDALE. On stripper oil?
Senator FANNIN. On stripper oil. Then they had to go through the Administrative Procedures Act to go back up to the $7.09.
Senator MONDALE. Well, everyone expected that new oil, stripper oil, would be in the higher priced category.
Senator FANNIN. If it was not challenged. But it could have been challenged and it could have been taken to the courts. They had to go through the Administrative Procedures Act. If you read the bill you will find that is exactly the way.
Senator MONDALE. I had a better bill, rolling it back to November 1, 1973. That would be $4.25 for old oil.
Senator FANNIN. Then we would be shipping in a tremendous amount of foreign oil, and then the consumer would be up against it.
Senator MONDALE. The consumer would be a lot better off. Somewhere in there there is a disagreement.
Senator FANNIN. If you do not want them to have product, you go your way. If you want them to have product, you go my way.
Senator MONDALE. If you want product at cheaper price, you go my way. So there is disagreement somewhere. Maybe it would be better if we went back to Dr. Okun.

Dr. OKUN. Well, I am afraid that I touched off an issue that in some ways is tangential. I do not want to lose customers who might consider a tax cut on the consumer because of disagreements on petroleum policy Senator. I hope that I can try to convince you that we can consider a consumer tax cut quite separate from petroleum policy.

My only point is that, you know, it seems to me that there is a certain singlemindedness in the administration's approach to the inflation problem in suggesting that the technique is to let the higher price that came from the oil-producing countries fall on the consumer, cut his purchasing power, force him to cut back on spending for everything, letting the economy possibly go through the wringer this year, rather than asking whether there were more specific things that could be done to alleviate the inflation.

I think the whole question of agricultural policy is very much another issue here, and I perhaps should not get into it. But there are questions raised about a situation where we are running a major increase in the volume of agricultural exports and a significant reduction in the volume of farm products coming to the American consumer through his supermarket. And I really wonder whether there is not an equity as well as an inflation issue to be dealt with there on its own.

So I think the sense that we really take inflation seriously, we ought to look for remedies that go beyond the general remedy of just depressing the whole economic situation and reducing the available income of the consumer, the incentive to the businessman.

I think we can do something about that by cutting taxes for the consumer. I see three specific ways of cutting taxes $6 billion that would fill a good tax bill.

As I see it, any one of these choices—

Senator MONDALE. Are your three suggestions a package or are they——

Dr. OKUN. Alternatives. Each one is $6 billion. Either cutting across the board the payroll tax on employees by something close to one percentage point or introducing some kind of graduation in the payroll tax like the vanishing exemption. I view that as really one alternative of doing something about the social insurance taxes and deciding how to do it.

The second is introducing the option of the $200 credit, a proposal that would be accredited to you, Senator Mondale.

And third, raising the present personal exemption across the board from $750 to $900 per person.

In terms of economic impact I think all of these would be highly desirable. They would be roughly equivalent. I think they would have good effects on the economy. I think any one should go along with some restructuring of withholding rates to reduce the current large volume of overwithholding and thus to produce an even larger immediate effect on take-home pay.

While I do not believe that we should change the withholding rates without changing the taxes as well, I think if we were to do that——

Senator MONDALE. Apparently there is general agreement. Secretary Shultz came down hard on the overwithholding question, and I am going to amend my bill to take care of that overwithholding insofar as we can, because I believe a lot of it is voluntary and deliberate on the part of the taxpayer. Because he is overwitholding so he has got the money to pay his bills when they come due.

Dr. OKUN. Secretary Shultz' proposal concerns me, because I doubt very much that the Congress or the administration would ever envision two changes in the withholding system within a short period of time. And, hence, I think that any change in the withholding rates should be coupled with, should be made concurrently with, a change in the tax law that Congress might wish to make. Changing the withholding tax structure without changing the tax law would probably preclude any consideration of a genuine tax cut. Changing the timing of the taxes that people owe does something, but it gives you less bang for a buck than actually changing their tax bill.

I think any choice among these measures really has to be based on equity and perception of the feasibility of prompt enactment. My own equity views would give top priority to easing the burden of the payroll tax. The problem there is the one Dr. Heller mentioned, that that requires the use of general revenues for partial financing of the social insurance fund. That would be a new precedent which the Congress has been reluctant to adopt in the past and might well wish to deliberate at length before accepting now.

I heard Senator Bentsen making a very optimistic judgment that maybe the time has come to take that action. And if that feeling is widely shared by the Congress, it would be a very good action to take and the right time to do it.

Now, the $200 credit option also introduces a new provision into the tax laws, one that should be much less controversial, much more acceptable in principle. I think there is a paradox in the present provisions of the personal exemption. That personal exemption is worth

$105 per head in the families in the lowest income tax bracket, and it is worth $525 per head in the highest. That does seem an odd way of giving relief through personal exemption.

The $200 credit option would provide tax relief for families in tax brackets under 26 percent. That covers the vast majority of Americans, and precisely because it excludes the wealthier minority, it can offer a significantly larger amount of tax relief to the family of medium income than would this great rise in the personal exemption. And I think that is an advantage of the $200 credit option.

On the other hand, the personal exemption increase has the advantage of being the simplest type of tax cut. And I suppose by some standards that fact that it provides some relief to every family that pays income taxes might be viewed as an advantage as well.

My conclusion is that this is a beauty contest among three beautiful nominees, and any one of these three tax measures would be constructive and responsible, represent a combination of good economic policy, good social policy, and they deserve prompt consideration and action.

Senator MONDALE. What about combining the $200 credit with the $850 exemption?

There is overlap there in our calculations. The $200 credit would cost $6½ billion; the $100 increase in exemptions, coupled with the credit would add not $3.5 billion—but only $860 million.

How about putting those together?

Dr. OKUN. There is nothing magic about $6 or $6½ billion as a tax cut. I suppose when you get much above that, I would begin to worry about the possibility of overdoing it. At that point, if you assured me that nobody else would have another bright idea of how we could do something else with another $1 billion——

Senator MONDALE. No doubt we will have that.

Dr. OKUN. It is a wonderful——

Senator MONDALE. Samuelson this morning wants to go to a $1,000 deduction.

Dr. OKUN. Well, that is almost a $10 billion tax cut. That is a little steep for my tastes. I would consider that a little risky, Senator.

Senator MONDALE. I think the chairman wants to add that work bonus that we passed in the Senate, and that is now in conference.

What did that cost, $600 million?

Dr. OKUN. I think some need to provide discipline to insure that this does not become excessively large——

Senator MONDALE. Let's just talk now, $6 to $8 billion to relieve something like that. That is not out of line, I gather, from what you tell us.

Dr. OKUN. I think one does have to make a judgment on what is going to happen on the expenditure side ultimately.

Senator MONDALE. About how much—let us take the administration's budget, which is, what is it, $7 billion in surplus under the full employment concept?

Do you think we should be in about a balance, I gather is what you are saying?

Dr. OKUN. Well, I was really leaving provision for a couple of billion dollars of extra expenditures net. That is really a judgment of what is going to evolve. I hear lots of enthusiasm for jobs programs.

On one issue, I would certainly share Secretary Shultz' enthusiasm for doing something promptly on the unemployment system, the administration has already budgeted for its proposal, and I suspect that as the Congress discusses that issue, it may well find that it wants to spend a little bit more than the administration proposal would.

I think jobs programs have some capability of providing a good outlet for supportive expenditures. I would hope the Congress finds ways to cut something out of the defense budget.

Senator MONDALE. We almost certainly will cut something out of the defense budget, that is, the administration's proposals. I think that that will be done.

Dr. OKUN. I would not be concerned about overdoing it with any combination of expenditure increases and tax cuts that were within a total of $10 billion.

Senator MONDALE. The administration said, at least Schlesinger said the other day, that they added $1 billion or $2 billion to the defense budget in order to stimulate the economy.

If you had your choice between this tax credit or a jobs program or improved unemployment insurance or defense, which would you prefer for stimulating the economy?

Dr. OKUN. Defense would certainly not be my preference.

Senator MONDALE. Why do you say that?

Dr. OKUN. Well, I think we ought to use our resources for things that people want to the extent that we can get our national security on a level that is less than that. As you are quoting Secretary Schlesinger, if we added $1 billion or $2 billion to the defense budget in order to stimulate the economy, the suggestion is this is $1 billion or $2 billion that we really did not need for meeting the national security requirements of the budget. And if that is the case, I think that those resources are better used in the civilian economy.

Senator MONDALE. Is there not also an additional argument that $1 billion spent there will not produce as many jobs as $1 billion in the civilian economy? We have calculated 66,000 versus 82,500 jobs per $1 billion.

Dr. OKUN. I think that is a fair judgment.

Senator MONDALE. I wish to thank you very much for your most useful contribution.

I would like to insert in the record at this point an article I wrote for the Los Angeles Times and some remarks. I made before the Sears Conference on the Family.

[The material referred to follows:]

[From the Los Angeles Times, Mar. 18, 1974]

## SENATOR MONDALE URGES NEW TAX-CREDIT SYSTEM

### A WAY TO EASE BURDEN ON HARDEST-HIT FAMILIES

(By Walter F. Mondale)

April 15 draws inexorably nearer. For the American family, the pressure is becoming intolerable—perhaps more so than ever before.

In recent Senate hearings, I got a concrete idea of the kind of pressure—especially from the tax man—that afflicts the typical American family. The major theme linking much of the testimony concerned the way government policies and programs can hinder the ability of families to do what they want and buy what they need.

In a whole host of ways—often unwittingly—the government is placing destructive burdens on families, and taxpaying time is a good occasion to take stock.

Consider for a moment the tremendous pressure that inflation is placing on so many American families, especially working families who pay the largest share of tax and bear the major burdens of making our economy run.

Last year, the cost of living in this country rose almost 9%—the largest increase in more than a quarter-century. Supermarket prices jumped 20%. Gasoline prices went up 19%, fuel oil and coal 45%—and we are told there is no end in sight. Incredibly, the 1968 dollar is now worth only 77 cents.

A recent study by the Joint Economic Committee shows that a family earning $12,000 lost more than $1,000 in purchasing power last year because of inflation and paid almost $300 in additional taxes. This inflation hits especially hard at low-income Americans—and large families—because they must spend more on necessities like food, housing and fuel where price increases have been the greatest.

In sort, the average working American has been taking a terrible drubbing from inflation and higher taxes. Indeed, whether we want to admit it or not, the fact is that we are already in the midst of a serious economic slowdown. The average family's real income is down 4% from last year, and unemployment in January took its biggest jump since 1970.

The outlook for the rest of 1974 is just as bad, if not worse. Economists have estimated that rising gasoline prices alone will cut into workers' purchasing power of $18 to $20 billion in 1974, and food prices are continuing to soar. On top of all this, the Administration has proposed a highly restrictive budget. This will clamp down on growth and employment even more than the current budget, which has already pushed unemployment up to 5.2% and brought economic growth to a virtual standstill. This kind of budget is a surefire recipe for a deeper recession.

Action is needed now to stimulate the economy, to avoid recession, to prevent and counter soaring unemployment and, above all, to help average Americans make ends meet.

Some witnesses at our hearing suggested we adopt a family allowance—like those instituted by many Western democracies—to help families cope with these economic pressures.

This is no radical proposal, for the United States already has a kind of family allowance. It is hidden in our income tax system and is called the personal exemption. This "family allowance" lets the taxpayer deduct $750 per family member from his adjusted gross income before figuring his tax.

The problem is that the exemption provides the most help to those who need it least—and the least help to those who need it most—because the size of the benefit depends on one's tax bracket. The $750 personal exemption provides up to $525 of tax relief for individuals in families making more than $200,000 a year, but only about $150 in tax relief for individuals in the average American family.

Congress needs to act now to help families and individuals deal with inflation and unemployment—and to avoid a recession. The fastest, most direct and most equitable way would be a tax cut.

I have proposed a bill to cut the average family's tax through a credit system. Under my plan, taxpayers would have the option of taking a $200 credit for themselves and each of their dependents, or continuing to use the existing $750 exemption. This $200 credit would be worth more in tax savings than the $750 exemption to almost all families earning $20,000 or less.

A family of four earning $8,000 a year, for example, would save $236 under this plan, while a family the same size earning $15,000 would save $117.

Larger families would save even more. A family of six with an income of $8,000 a year would save $322, while a family of six earning $15,000 a year would save $187.

Many people have trouble understanding why a $200 credit would save them more than a $750 deduction. An example might help.

Suppose your gross income is $10,000. If there are four people in your family you have four exemptions worth $750 each, for a total of $3,000. You subtract this $3,000, along with your $1,500 standard deduction, from $10,000 and pay tax on the gross adjusted income that is left—$5,500. The statutory tax rate on that is just under 17%, and so the tax is $905.

Under a system of $200 tax credits, however, you would subtract only your $1,500 standard deductions from your $10,000 gross income before figuring your tax. The statutory tax rate on this $8,500 income is just under 18%, and the tax would then be $1,490. However, you would then subtract your four $200 credits (worth a total of $800) from the tax you would otherwise pay. Your tax would then be $690, instead of the $905 you would pay using four $750 exemptions—a saving of $215.

In addition to giving working families a badly needed tax break, this new optional tax credit would—if enacted right away—help head off the threat of a recession by providing an extra $6.5 billion in purchasing power to American consumers.

Nearly 80% of this tax relief would be concentrated on those making between $5,000 and $15,000 a year, where the burden of inflation and higher taxes has been most severe.

The day of reckoning is almost upon us. But there's no reason that Congress—in these economically difficult days for the average family—should hesitate to provide much-needed relief.

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REMARKS OF SENATOR WALTER F. MONDALE, SEARS CONFERENCE ON THE FAMILY, PORT ST. LUCIE, FLA., FEBRUARY 8, 1974

I would like to talk today about something that we all take for granted . . . the American family.

During my nine years in the Senate, I have probably devoted more of my time to working with the problems of children than to any other issue. I have seen many ways in which public and private programs have helped children and many other ways in which they can and should help them. But as good as some of our public and private institutions can be and we have some excellent schools and foster homes it has become increasingly clear to me that there is just no substitute for a healthy family. There is nothing else that can give a child as much love, support, confidence, motivation or feelings of self worth and self respect.

Urie Bronfenbrenner, Professor of Human Development and Family Study at Cornell University put it best:

"It is no accident that in a million years of evolution we have emerged with a particular form for the raising of children . . . and it is the human family."

Few Americans would disagree with that statement. Yet, American families have come under increasing pressures in recent decades . . . as the pace of change has quickened . . . and as life has become more impersonal. And I'm afraid we are often better at paying lip service to the importance of families . . . than we are at protecting the opportunities they need to succeed.

Like many of you, I've tried to do more than just read about the problems and listen to the experts. I have visited the victims of child abuse . . . and talked to families who have lost a child through crib death. I have seen migrant mothers with their ricket ridden infants . . . and the empty eyes of young Indian children in federal boarding schools thousands of miles from their homes.

And the longer I work on specific problems and programs . . . the more convinced I am that we need to step back and take a look at the condition and health of American families as a whole.

We're beginning to take that look in a series of hearings by the Subcommittee on Children and Youth, which I chair. We're finding that most families in this country are strong and healthy. I don't want to be an alarmist . . . but there are warning signals which we cannot ignore:

Today one out of every six American children lives in a single parent home.

Teenage alcoholism and drug abuse are growing problems.

Suicide is now the second leading cause of death for young Americans between ages 15 and 24.

Delinquency is so pervasive that experts now predict that one out of every nine youngsters will have been to juvenile court by age 18.

And child abuse is a widespread and growing problem among all social and economic groups.

It is not just the families of the poor who are facing these increasing pressures, although poor families often feel them most severely. These symptoms strike families from every background.

Recently, I was at Cornell talking to about 1,000 students about the problems of American families. We concentrated at the beginning on the problems of poverty. Then, about half way through one young man got up and said, "What about growing up in a family with a lot of money, but where you never see your Dad or Mom." You could just feel the tension in that room. That's what they were concerned about . . . and that is what I suspect a surprising number had confronted during their upbringing.

As one of our witnesses said, These may be the problems of prosperity where the cocktail hour replaces the family hour.

The cold fact is that parents from all backgrounds are spending less and less meaningful time with their children. We all know how television has replaced many family discussions. The average high school graduate now has spent 15,000 hours in front of the T.V., compared to 10,000 hours in school. And a recent study measuring the amount of time a group of fathers spent interacting with their infants produced a shocking result . . . an average of 37 seconds per day.

I think the message of all this is pretty clear. We simply cannot continue to ignore what is happening to American families. And it's not enough just to blame the parents when something goes wrong. Responsibility to provide our children with a supportive upbringing must rest on those of us who are parents. But we have to realize that it is very hard to be a good parent . . . and it is getting harder every day.

Some of the difficulty stems from the increasingly hectic pace of change . . . and the overwhelming size of so many of the institutions and bureaucracies with which we have to deal.

But we must recognize that in a whole host of ways . . . often unwittingly . . . government policies are placing destructive burdens on families.

I want to emphasize right at the outset . . . I don't want a government running our families, or trying to set standards for them. We don't need any Government big brothers. But in many different ways government is already interfering with families, and undermining their ability to do what they want and need.

Government economic policies are a good example. Every witness we've had before our Committee, Urie Bronfenbrenner, Robert Coles, Margaret Mead, say wherever you find a society in which the head of the household has a difficult or impossible time delivering the minimum necessary for the health, housing or feeding of his or her family . . . that culture is in trouble.

So you must begin, it seems to me, by asking how do our economic policies either support or undermine that fundamental need of families to have minimum sustenance necessary to do their job. And I think you would have to say many times our economic and tax policies are really quite mindless of their effect upon the American families.

Consider for a moment the tremendous pressure that inflation is placing on so many American families . . . especially the working families who pay the largest share of taxes and bear the major burdens of making our economy run. Last year, the cost of living in this country rose almost 9% . . . the largest increase in over 25 years. Supermarket prices jumped 22%. Gasoline prices went up over 18% . . . fuel oil and coal over 44% . . . and we are told that there is no end in sight. Incredibly, the 1968 dollar is now worth only 77¢.

A recent study by the Joint Economic Committee shows that a family earning $12,000 lost over $1,000 in purchasing power last year because of inflation . . . and paid almost $800 in additional taxes. This inflation hits low income and working Americans . . . and large families . . . especially hard because they must spend more on necessities like food, housing and fuel where price increases have been the greatest.

Listen to what this means in human terms. Robert Coles . . . perhaps the nation's ablest chronicler of the problems of families because he travels with them in the migrant stream, or lives with them on Indian reservations . . . speaks to us through their words. At our hearings he quoted one factory worker as follows:

"Work, I have plenty of it—so much that it's my whole life. I work my regular shift, then I work overtime—whether I want to or not.

"Like I say to my wife, it's a bind, because we need the money, just to keep our heads above the water, but it means that I practically never get to see the kids, except on Sunday, and then I'm so tired I can barely do anything but sleep and eat and get ready for the next week. My wife is working too; she has to—or else we'd be drowning in bills.

"I feel like a guy running hard just to keep in the same position." He concluded, "And let me tell you, it makes a difference at home; my wife feels it, and so do the kids."

Families like this one have borne the brunt of our recent economic problems . . . the worst inflation since World War II . . . the highest interest rates since the Civil War . . . and rising unemployment.

And now we learn that next year's Federal budget has a full employment surplus of $8 billion . . . thereby increasing chances for a deep recession and soaring unemployment.

Some witnesses at our hearing suggested we adopt a children's allowance or family allowance . . . to help families cope with these economic pressures . . . like most Western Democracies do.

The fact is our country already has what could be called a family allowance. It is hidden in our income tax system and called the personal exemption. It lets you deduct $750 from your adjusted gross income. The problem is that the exemption provides the most help to those who need it least . . . and the least help to those who need it most. Because the size of your benefit depends on the tax bracket you are in . . . this $750 personal exemption provides up to $525 of tax relief for individuals in families making over $200,000 . . . but only about $150 in tax relief for individuals in the average American family.

This combination of inflation . . . high interest rates . . . restrictive federal budgets . . . and what might be called an upside down family allowance . . . is placing tremendous pressures on American families.

And it is dangerous economic policy as well. I fear these policies could well lead to reduced consumer demand, economic recession and increased unemployment.

That is why I recently introduced legislation to cut about $200 a year from the average family's tax bill. My proposal will pump roughly $6½ billion into our economy over the next year and be directed to those who have been hit hardest by rising prices. And it will be a major step toward greater tax fairness for average families.

Under my plan, each taxpayer will have the option of taking a $200 credit for themselves and each of their dependents . . . or continuing to use the existing $750 exemption. This $200 credit would be worth more in tax savings than the $750 exemption to almost all families earning $20,000 or less.

A family of four, earning $8,000 a year would save $240 a year under this plan, while a similar family earning $15,000 would save $117.

And my proposal would provide even greater relief for larger families . . . the very ones who have been hit the hardest by inflation. A family of six, earning $10,000, for example, would save about $880 a year under my bill.

Our economic and tax policies are only one example of governmental policies that place pressures on families:

> Our programs for families under strain sometimes unnecessarily encourage placement of children in foster homes or institutions.
>
> Over half our States have welfare laws which require an unemployed father to leave his family before his wife and children are eligible for assistance.
>
> Our public housing and urban renewal policies have too often destroyed neighborhoods and communities . . . or built huge new high rise slums . . . or segregated senior citizens in public housing projects for the aged only.
>
> And the transfer policies of our armed services clearly need to be reconsidered in terms of what they mean to families and children.

In short, our hearings have shown that the federal government . . . through what it does or does not do . . . influences family life intimately. And I think it is time to identify these policies and examine their effects. For that reason, I will introduce legislation shortly to require what might be called a family impact statement on some of our existing and proposed governmental programs.

We now require an environmental impact statement before the government acts. That has helped us protect our few remaining wilderness areas, our lakes, the air we breathe. I believe we need a similar program to help families. The effect of a government policy on the family may not be the only criterion for making a decision, but it should be considered along with other factors.

And I will offer family strengthening legislation as well in the areas of day care and child development . . . public service employment . . . and an increased minimum wage.

Proposals such as these could bring some long over due support and relief to American families, but they will clearly only be part of the answer. The government doesn't have and should'nt pretend to have the entire solution to the problems affecting American families.

In some areas, changes in government policies could be very helpful. But I certainly don't want a national policy of what I call Big Brotherism . . . in which the Federal government assumes that it knows best how children should be raised and how families should be structured.

We're learning, rather painfully, that government has an additional impact beyond its specific programs and policies. Those of us in public life are examples for many Americans. We do help set a moral tone for the nation and its families. And anyone who looks at the current moral and ethical mess in Washington must pray that not a single family ever adopts those standards as their own.

Bob Coles pointed out the way in which a generation of children is being affected by the seemingly endless revelations surrounding Watergate.

"We would do well," he told us, "to think about the sensitivity and responsiveness of children to the kinds of widespread and cynical corruption that has not only affected this Government, but has also affected American families."

"When," Coles continued, "those children and those parents who rear them can fall back on nothing but this kind of pervasive hypocrisy . . . then I say the American family is as jeopardized as it possibly can be. Because children watch television, and they read, and their parents read and watch television . . . and they all know what is happening about them."

Bob Coles issued a challenge to all of us who care about the strength of our nation and the health of American families. He said in conclusion:

"So the Federal government cannot only do something about attempting to give working people and would be working people of this country a better deal . . . but it can in very fundamental ways show by its own integrity a whole generation of families what it really does mean to be an American."

EXAMPLES OF TAX SAVINGS FROM MONDALE PROPOSAL

[Married couple with 2 dependents, with personal deductions amounting to 15 percent of income]

| Adjusted gross income | Present tax | Tax with $200 credit | Tax saving |
|---|---|---|---|
| $5,000 | $102 | 0 | $102 |
| $6,000 | 249 | 0 | 249 |
| $8,000 | 573 | $333 | 240 |
| $10,000 | 905 | 690 | 215 |
| $12,000 | 1,228 | 1,064 | 164 |
| $15,000 | 1,765 | 1,648 | 117 |
| $17,500 | 2,233 | 2,179 | 54 |
| $20,000 | 2,760 | 2,740 | 20 |

Senator MONDALE. I now turn it over to Senator Fannin; since I must leave. And I wish to thank you very much for your contribution.

Thank you very much.

Senator FANNIN [presiding]. Thank you, Mr. Chairman.

I did not realize that Secretary Schlesinger had advocated spending that money just to try to improve the economy. I have never heard that expression used, and I would certainly be opposed to that. I agree with you that if we are going to spend money, there are many areas in which we need to spend it.

I do not want to cut the defense budget below what is essential. In fact, I will support a program for the essential needs in that regard, but I certainly do not want to do it just to provide jobs.

But what I am concerned about, a tax cut will lower tax receipts this year and will help all right, but not only this year but also in the future. Because, when we once take this action, and if we change, as you have advocated, the different credit options and the amounts that would be involved in your three different specific tax cut proposals, then, we know we are going to have to live with those. They are difficult to change. So that is my great concern.

I am determined that we do something about the budget, and, certainly, this is not consistent with doing something about the budget as far as cutting the budget and trying to get the budget balanced.

But, Dr. Okun, you state that supporting your position for a tax cut that unemployment has risen by 650,000 persons since October. Now, if we immediately enact a tax cut, would any of those 650,000 people receive one dime?

Dr. OKUN. No. The whole process of cutting taxes to relieve unemployment, as you are suggesting, is a very indirect route. It is giving the people who are employed more income and counting on the process by which they spend more, which in turn creates more job opportunities for those who are not initially participating.

Senator FANNIN. Well, if we have a certain amount of money to spend, would it not be more equitable if we had unemployment insurance increases to take care of the people that are really in need, rather than to place the money where, yes, it could be utilized but not especially needed?

Dr. OKUN. That certainly is an item that ought to be on the agenda. The Administration has provided for funds, and I think Secretary Shultz is right in saying that maybe Congress has not shown the urgency it should on this particular issue of strengthening the unemployment insurance system.

There is a limit to how much one can replace of lost income in the way of unemployment insurance benefits. We do not have a system that would begin to make up for the income loss of our more skilled workers like pilots, and engineers, and so forth. And we also have the basic problem that, you know, you would like to give back to the individual his full paycheck, but if you did that, you would reduce any incentive to go hunting for another job. So your problem of equity and your problem of incentives begin to conflict a little if you get too liberal on unemployment benefits.

Senator FANNIN. Well, of course, the whole idea is to try to carry them through the period until they can obtain employment. It is a temporary, we hope, measure, although sometimes it is extended far beyond what we anticipated.

But when we start talking about the economy and the slowdown, and then what we are going to do about it, is not our slowdown typical of what is happening worldwide?

Dr. OKUN. I think we will see a worldwide slowdown this year. It is occurring in other countries. It is interesting that European and Japanese countries have had less pronounced recession periods than we have in the postwar period. They rarely have a year in which their real output goes down, even a quarter in which their real output goes down. We often do, and we are in that situation now. So in some sense it is——

Senator FANNIN. We are talking about the gross national product of those countries. But if we are talking about their economic position, then they have had a very much of a slowdown, and in Japan they have gone from the surplus position to, perhaps, a deficit position, and West Germany perhaps the same. And much of it has been from the standpoint of their energy problems.

When we start talking about correcting some of our difficulties by taxing these industries, especially now the oil industry, I feel that we should have an excess profits tax, personally. I favor an excess profits tax to try to force money into exploration and development, and I think that we can work out the proper type of legislation that would accomplish that objective.

Would it not be far better to have the needed amounts invested in exploration and development now than to wait until some future period in which we would be penalizing the people to a great extent if we do not do it now?

Dr. OKUN. I think we should encourage exploration, development, secondary recovery, any technique of expansion that we can. I think that the record and the figures show that there are significant limitations on how fast the industry can go, just in terms of gearing up for this. The investment figures that came out in the Department of Commerce survey just 2 weeks ago show the petroleum industry planning to expand its capital spending from about \$5½ billion in 1973—which, incidentally, is about the same as they spent in 1972—to \$7.2 billion this year.

Now, that is a very substantial increase. It is about a 30-percent increase in their spending. At the same time, you know, when you compare this with the increased revenues from crude oil production in the United States, it is only a small portion. I think you used the figure of \$6.35 as the average price, and that seems reasonable. That is about \$2.50 more than we averaged in 1973. On 4 billion barrels of oil that we produce domestically a year, it is about a \$10 billion increment in revenues, at least \$6 billion after tax. Here we are with only 25 percent of that, roughly, coming back into the spending stream through increased investment.

And I am not saying that that does not represent a full effort, a maximum effort, indeed, by the petroleum industry. It obviously takes time in order to gear up that production. But here we are with incremental revenues that far exceed any incremental investments that we can look forward to, and that is where the drain——

Senator FANNIN. Well, I do not think you are taking into consideration, Dr. Okun, that we have two categories of operations. We have the independent operator that does most of the drilling, and now in the past, he has not been involved in these tremendous profits. And today, as far as his profits are concerned, they are increasing, and, of course, the stripper well program has helped him.

But looking to the future, we are going to be dependent upon the majors as far as the Outer Continental Shelf. We are going to depend on majors on operations like the North Sea, if we do something like that off the shores of Alaska. So my position is that if we can channel that windfall profit, as they are called—they say windfall profits because it is the result of the changes that have come about, and I do not want the companies to benefit by this energy shortage. I want them to make investments so that we will be able to solve the energy shortage.

So the position I feel we should take is that a fund should be set up and a certain amount of the windfall profits should go into those funds. If the money does not go into the funds, then they pay excess profits on it.

Would that be logical?

Dr. OKUN. Well, the difficulty I see in that, Senator, first of all, is any definition of excess profits and any definition of what is allowable expenditures that would qualify for forgiveness of excess profits. In the past the record has been very unsatisfactory on any kind of a general excess profits tax. The evidence has been that firms have a lot of control on the bottom line of their income statement. Increases in advertising budgets, increases in Persian rug purchases instead of Persian oil purchases, where the rugs go in the boss' office, are a way of eliminating liability for excess profits.

Senator FANNIN. If you talk about exploration and development, that eliminates what you are talking about. It does not take a new rug on the president's floor to do any exploration.

Dr. OKUN. But you do have the definition of——

Senator FANNIN. Well, you have that anyway, so, in other words, that is nothing. That is a business decision, and I am not trying to say that you are going to start controlling every action that a company takes. But I am talking about reasonable people dealing under reasonable conditions, and I think that we could say that the money must be spent on exploration and development, and it certainly could be controlled.

Dr. OKUN. The problem there, really, there is a serious problem of gearing up fast enough.

Senator FANNIN. Well, that is why I say it would go into a fund, so it would not have to be spent the year it was earned. If you have that, they could just waste the money, so we want to do away with that stipulation. So if they do not spend it within a certain length of time and have it where it is a controlled fund, and it does need to go into proper exploration and development, and that certainly is easy to supervise.

Dr. OKUN. I think I would have confidence that with the industry having adequate profitability, having cash flow, that funds will flow properly into exploration and development.

Incidentally, another aspect of some of the proposals I have seen that concerns me is they seem to prejudge just what the most economical techniques are for expanding production. I do not know the field of petroleum economics. From our little colloquy, I am convinced that you are a much better expert on it than I am. But I suspect that none of us know it as well as the people in the industry..

You know, take the question of whether we can get secondary recovery. As I understand it, we now recover something like 35 percent of the potential oil.

Senator FANNIN. That is right. In secondary and tertiary recovery, we can get, no question a good deal more, but the independent companies have been the ones that have been doing that, because the well is pumped down to about the figure that you are talking about, and most of them are then sold off to independents.

Now, I have talked to many of the independents. I have gone out to visit with them, and they are confident they can double their production within a reasonable length of time if they have the money. But, now, as I stated, well, there are 350,000 stripper wells in the United States producing an average of 3.3, but there are 84,000 in Texas that about averages 3.8.

But to give you an idea of some of the operators we talked to, and one specifically gave us figures on what it cost him now, because for every barrel of oil he produces, he has to get rid of two barrels of brine from salt water. And he has to carry it, because of the EPA regulation, he has to carry it down to the gulf to dump it into the gulf. So here we have a cost that would be prohibitive if the price were back at $5.25 or $3.90, as you talked about. That is, I mean where you said it was in 1973, May 15, 1973, it was $3.90.

So all I am saying is let us give the operator an opportunity to go forward with his development. So if we do what has been advocated here today and go ahead and make these cuts and then try to pick it up by cutting back on industry, I think we are going in the wrong direction.

Dr. OKUN. I would not propose trying to pick it up on industry. I have not seen the case made for a tax discrimination that would penalize the petroleum industry. I think there is a case for raising questions about letting prices move gradually to a market-determined level. And I do find the two-tier price system makes sense, and I think that, you know, if we hold old oil at $5.25, I think where I would disagree is that I would be willing to see some control on the price of new oil.

I would rather see it work that way with an understanding that we are phasing out those controls gradually, as production has time to expand, and not change the rules on taxation. I think there are some long-run issues about depletion, the write-off periods and so forth, which ought to be discussed on their merits but not in the context of the particular problems of this year.

I do think there is one place where we can give some additional incentive for domestic activity, and that is by making sure that foreign activity is not more profitable than domestic activity.

Senator FANNIN. I would certainly agree with you. If we cut out the foreign depletion alowance, it would be in order, but to cut off the depletion allowance today, if we just decided to cut it off, we would have to look behind the scenes as to who does this affect. And that small operator that would be closed down, it would be a disastrous effect.

Dr. OKUN. I would not recommend a sudden change in that regulation. I think if we do decide to eliminate depletion in excess of original costs, any change of that sort ought to be phased in as controls on the prices are phased out.

Senator FANNIN. And I understand your position, and it would apply very aptly to the large oil companies. But when we talk about a price control and trying to phase it in with the depletion allowance and all, just like you were talking earlier, about the other costs that should be allowed to the operator because of his dry holes and the problems that exist, and certainly I agree with you that if we want to eliminate new exploration and development, why, that is the way to do it.

Well, I appreciate very much, Dr. Okun, your patience and your understanding. We were very pleased to have you with us today.

Dr. OKUN. Thank you.

Senator FANNIN. Thank you.

[The prepared statement of Dr. Okun follows:]

PREPARED STATEMENT OF ARTHUR M. OKUN, SENIOR FELLOW, THE BROOKINGS INSTITUTION [1]

Economic activity is sagging in the United States today: Industrial production has declined during the past three consecutive months; unemployment has risen by 650,000 persons since October; and real GNP is declining sharply this quarter. In large measure, the economic setback reflects the oil embargo and the ensuing escalation of petroleum prices. The economy was slowing down last summer and autumn in response to fiscal and monetary restraints that were applied to halt the earlier hyperactive boom. If not for the energy crisis, I believe the slowdown would have been limited and appropriate in scope and magnitude. But after colliding with the oil embargo, the welcome slowdown turned into an unwelcome tailspin.

Federal allocation policies prevented the oil shortage from having major disruptive effects on industry and headed off the wave of store, plant, and office closings that seemed to emerge on the horizon. The shortage was confined largely to consumer use and particularly to the gas tank of the family car. As a result, the petroleum shortage has affected the economy primarily by weakening the demand for products related to gasoline—most notably automobiles and vacation activities. The collapse of new car sales is just beginning to spread to other industries that supply products to Detroit. These prospective damaging secondary effects are one negative element in the economic outlook for the months ahead.

A second and much larger negative factor in the outlook is the prospective impact of higher fuel prices on consumer demand for other products. Fuel inflation is taking an enormous toll on real purchasing power of the American consumer. It now seems likely that, directly and indirectly, the American consumer will spend $20 billion more on petrolum products in 1974 than in 1973 (and will get less product). History tells us that the consumer responds to such increases in the cost of essential items by tightening his belt generally, and cutting his consumption of a wide variety of discretionary items ranging from movie tickets to television sets. It takes time for such adjustments to be made, and they are not visible now. But the fuel price drain is an inevitable depressive influence that will increasingly hold down production in consumer industries across the economy during the year ahead. The higher payments to countries that ship oil to the United States and the higher payments to the domestic oil industry are the equivalent of a huge tax on the consumer, and they will force cutbacks in other areas of consumer spending.

Moreover, the incomes earned from higher petroleum prices will not flow into the spending stream to create jobs or output in the United States during the foreseeable future. Only a small portion of the increased revenues of the domestic industry will be reflected in increased investment this year; at this point, the industry is probably ready to invest all it can given managerial and physical limitations on the speed with which capital spending can be geared up. The nations that ship oil to the United States will ultimately spend some of their increased revenues on U.S. products but that too will take a considerable period of time. In the interim, that money will be a net drain out of the U.S. spending stream.

This diagnosis points to a clear prescription for providing additional fiscal support to the U.S. economy, particularly to alleviate the pinch on consumer purchasing power. At a minimum, such support will help to insure the beginnings of a recovery by the end of 1974. I see virtually no risk of such a strong self-generating upsurge that additional fiscal support would be risky and inappro-

[1] The views expressed are my own and not necessarily those of the officers, trustees, or other staff members of the Brookings Institution.

priate. At a maximum, such a measure might prevent a prolonged and sharp slide in employment and output.

A well-timed, broad-based cut in consumer taxes would be the best way to provide the fiscal support. In gauging the appropriate magnitude of such a measure, I am assuming that the expenditure side of the budget for fiscal year 1975 may turn out slightly above the administration proposal, but not by a significant margin. I see some opportunities that Congress may choose to pursue in adding to jobs programs, housing programs, and strengthening the unemployment compensation system. But only a small volume of such expenditures could be geared up adequately to provide anti-recessionary protection in the near-term when it is needed. On the other hand, I see some likelihood that Congress may trim the administration requests for military expenditures. Given that assumption, I conclude that a tax cut of about $6 billion (annual rates) would be large enough to be constructive and small enough to avoid excessive fiscal stimulus under any plausible economic scenario.

## THE INFLATION ISSUE

I am recommending anti-recessionary supportive measures only after the most careful consideration of their possible impact on the serious problem of inflation. I feel particularly confident today that the response of the economy to a tax cut will increase output and employment rather than add to inflation. A tax cut in 1974 will not even reduce unemployment from current levels; it can and will limit the deterioration in economic activity that is bound to occur in the months ahead. It supplies a landing net for a recessionary economy—not a launching pad for a boom.

When the tax cut bolsters consumer demand, the economy will have ample labor and plant capacity to meet and greet that spending. While a number of shortage areas linger on today, those other than food and fuel will continue to vanish during the first half of 1974 as rapidly as they emerged during the first half of 1973. The economy's operating rates will be significantly lower by mid-year than they were late in 1972, when lumber was the only significant area of shortage. Since only a trivial part of additional consumer income is funneled into the demand for food, a tax cut will have virtually no effect on food prices. In the case of petroleum, price controls should ensure that any increment in demand is not converted into additional inflation.

More unemployment is *not* what this country needs to stop inflation. Labor markets were not tight last year and they are becoming regrettably easier. Wages have not accelerated and have not contributed to the upsurge in inflation. To maintain the fiscal policy of 1973 in 1974 is to prescribe the same medicine for a case of the chills that was appropriate for a fever. It is expensive and ineffective medicine. The difference between 6½ percent and 5½ percent unemployment rates at yearend could cost $40 billion in our rate of GNP without reducing the rate of wage-increase by as much as 0.1 percent. Indeed, I would argue that, by evidencing the concern and effort of the government to alleviate the acute cost-of-living squeeze on the worker, a tax cut may have beneficial effects in preserving the recent moderate behavior of wages.

In short, a supportive tax cut that offsets only part of the "tax" collected by the petroleum-producing countries is not going to exacerbate the inflation problem. My sense of the urgent need to reverse the present inflation leads to proposals for a rollback of petroleum prices and for regulations to ensure adequate domestic supplies of farm products. These are surely lesser evils (with greater anti-inflationary benefits) than letting the whole economy go through the wringer.

## SPECIFIC TAX CUTS

Three specific proposals would fill the tax bill, as I see it:

1. Reduce social insurance taxes on employees and the self-employed, making up for that loss of receipts to the social insurance funds out of general revenues. That could amount to a reduction across the board in payroll taxes of nearly one percentage point. Alternatively, it could be structured to graduate the payroll tax, giving the greatest proportionate relief at the low end of the wage scale.
2. Incorporate into the income tax law the option of a $200 credit in lieu of the present $750 personal exemption that is deductible in calculating taxable income.

3. Raise the present personal exemption from $750 to $900 per person.

The economic impact of all these options would be highly desirable and roughly equivalent. The tax cut stemming from any would flow immediately into consumer take-home pay through our withholding system. Indeed, any one would provide an occasion for restructuring withholding rates to reduce the current large volume of over-withholding and thus to produce an even larger immediate effect on take-home pay. The widespread small increases in consumer take-home pay resulting from any of the tax cuts would get into the spending stream and help to alleviate the possible retrenchment in consumer living standards that might otherwise take place in response to job layoffs and fuel inflation. The vast bulk of any of these tax cuts would flow to the lower-middle and middle-income consumer who consumes virtually the whole of his income.

Any choice among the measures really has to be based on one's sense of equity about the tax system and one's perception of the feasibility of prompt enactment. As I view the equity issue, easing the burden of the payroll tax would be my top priority. But that requires the use of general revenues for partial financing of the social insurance funds; and that would be a new precedent which the Congress has been reluctant to adopt in the past and might well wish to deliberate at length before accepting now.

The $200 credit option also introduces a new provision into the tax laws, but one that should be much less controversial in principle. There is a paradox in the present provisions that make the personal exemption worth $105 per head to families in the lowest income-tax bracket and $525 per head in the highest. The $200 credit option provides tax relief for families in tax brackets under 26 percent. That covers the vast majority of Americans and, by excluding the remainder, it can offer a significantly larger amount of tax relief to the family at median income than would the straight rise in the personal exemption. I regard that feature as an advantage of the $200 credit option. On the other hand, the personal exemption increase has the advantage of being the simplest type of tax cut. The fact that it provides some relief to every family that pays income taxes may also be viewed as an advantage.

Any one of these three tax measures would be constructive and responsible, representing a combination of good economic policy and good social policy. They deserve prompt consideration and action.

Senator FANNIN. The hearing is adjourned, subject to the call of the Chair.

[By direction of the chairman the following statements are made a part of the printed record:]

PREPARED TESTIMONY BY SENATOR FRANK CHURCH

Mr. Chairman, Thank you for the opportunity to testify here today on a matter of vital concern for many aged and aging Americans: the need to update the retirement income credit.

This tax relief measure was first adopted in 1954 to provide retired teachers policemen, firemen, and other government annuitants with comparable tax relief as Social Security beneficiaries.

Payments under the Social Security program are, of course, exempt from Federal income tax. Government pensioners and others with little or no Social Security benefits can receive similar tax relief by claiming a 15-percent credit on their qualifying retirement income—pensions, annuities, interest, dividends, and rent.

The maximum amount for computing this 15-percent credit is now $1,524 for single aged persons and $2,286 for elderly couples. These amounts must, however, be reduced by:

(1) Tax-exempt pensions, such as Social Security benefits and Railroad Retirement annuities; and

(2) Earned income, depending upon the individual's age and extent of earnings.

In the case of persons aged 62 to 71 the maximum base for computing the credit is decreased by $1 for each $2 of earnings between $1,200 and $1,700. And thereafter, it is reduced on a dollar-for-dollar basis for earned income above $1,700.

For public pensioners or annuitants under 62, their maximum base is reduced for each dollar of earnings above $900.

The retirement income credit, however, has not been updated since 1962 for single elderly persons and 1964 for aged couples. As a consequence, it no longer provides equivalent tax relief for retired persons with little or no Social Security. On the other hand, Social Security benefits have been adjusted six times during this period to protect older Americans from the cruel effects of inflation. And, these benefit increases have aggregated 104 percent.

After the 11 percent Social Security increase becomes effective later this year, maximum annual payments for a male worker will amount to almost $3,650 a year. For an aged couple, maximum benefits will be nearly $5,500.

In sharp contrast, the maximum amount for computing the retirement income credit is $1,524—or about 42 percent of the maximum Social Security benefit for a retired worker. For an elderly couple, the maximum amount for tabulating the retirement income credit is $2,286—again just 42 percent of the maximum Social Security benefit for a couple.

Quite clearly, the need to update the retirement income credit is long overdue.

As a first step toward this goal, I urge that the maximum amount for computing the credit be increased from $1,524 to $2,500 for single aged persons, and from $2,286 to $3,750 for elderly couples.

In terms of dollars and cents, this change alone could produce a tax savings of $146 for single older Americans. And for an aged couple, this measure could provide an additional $220 in tax relief.

For older Americans struggling on low or moderate incomes this relief would certainly be most welcome, especially since their purchasing power has been eroded substantially by the staggering increase in the cost of living in recent months.

Second, my proposal would raise the exempt earnings limitation before the maximum base for computing the retirement income credit would be reduced. For retired persons aged 62 to 71, the earnings ceiling would be increased from $1,200 to $2,100. Moreover, the $1 for $2 reduction would apply to all earnings above $2,100, instead of just a $500 band—from $1,200 to $1,700—as under present law. For public pensioners under age 62, the exempt earnings ceilings would be boosted from $900 to $1,200.

This proposal, I am pleased to say, was adopted by the Finance Committee in modified form as an amendment to the 1972 Social Security Amendments, H.R. 1. Shortly thereafter, the Senate approved this urgently needed change. Unfortunately though, this measure was later removed in conference committee—as were several other House and Senate amendments—to reduce costs for the overall Social Security package, and thus enhance the likelihood for enactment.

In January of this year, the Senate again placed itself on record in support of modernizing the retirement income credit when it approved my amendment to H.R. 8214. This amendment was adopted without any opposition on the Senate floor. Moreover, it had the wholehearted support of the National Retired Teachers Association-American Association of Retired Persons and the National Association of Retired Federal Employees. Collectively, these two aging organizations represent some 6.5 million older Americans.

However, H.R. 8214—along with my amendment—was later recommitted to the Finance Committee for further consideration because some controversial provisions were added to the bill.

Consequently, the Finance Committee would not be acting on a new proposal at this time. Instead, the Committee would be taking action to expedite consideration of a measure upon which there is widespread bipartisan support.

Moreover, the Committee could help to restore greater tax equity for many retired teachers, policemen, firemen and other government annuitants.

For these reasons, I again urge that the Committee adopt my amendment to update the retirement income credit.

Statement of the National Association of Manufacturers
On Anti-Recession Tax Measures

NAM appreciates this opportunity to state its views on current proposals to cut Federal income taxes as an anti-recession measure. Most prominent of these is to increase the personal exemption by $100 to $850, which would have an annual revenue impact of approximately $4 billion. A flat $200 credit as an optional alternative to each $750 personal exemption also has been proposed. This, of course, would concentrate tax relief at the low income end but increase the progression of the tax structure.

We question whether such measures should be adopted at this time to stimulate the economy. If Congress is determined to provide some individual income tax relief, we believe a sounder approach would be that recommended by the Secretary of the Treasury to eliminate over-withholding of personal income taxes, which was an unintended result of the Revenue Act of 1971. As the Secretary noted, such action would be more consistent with fiscal discipline than a general tax cut but would correct an inequity in the tax structure at the same time.

In addition, we believe Congress should explore means of improving the tax structure to encourage productivity and expansion of industrial capacity, means which could be phased in at little or no cost to the current budget. Specifically, we believe Congress should consider an increase in the corporate surtax exemption to enable small business to cope with spiraling costs and to consider the merits of a full-fledged capital cost allowance system to replace our current depreciation practices.

THE ECONOMIC SCENE

While real economic activity has slowed from the 1973 pace and unemployment has edged up, real weakness appears to be concentrated in a few industries most susceptible to the energy crunch and other shortages. All broad-scale economic indicators -- including, unfortunately, various price level indicators -- are showing far more strength than typical of any recession period. In fact, there appear to be far more signs of continuing economic strain -- including shortages of basic agricultural and industrial commodities, high interest rates, and a relatively high operating rate for total manufacturing -- than there are of slack demand.

In this context and with a budget deficit estimated at $5 billion in fiscal 1974 and at least $9 billion in 1975, an overall fiscal stimulus hardly seems called for. In our view, attempts to fine tune the economy with such blunt instruments have not been particularly successful in the past. With so little real slack in the economy, the addition of $4 billion or so to aggregate demand right now could merely add fuel to the inflationary fires rather than create new jobs.

Tax Structure Considerations

The foregoing is not to say that present tax rates are satisfactory. Federal income tax rates are too high in our opinion, and if somehow real budget restraint can be practiced, across-the-board tax relief for individuals is a highly laudable objective.

In addition, the NAM has advocated a specific 4-point program of tax reform and reduction, spelled out in our 1972 position paper entitled, Wealth, Taxation and Fiscal Policy, copies of which were circulated to this Committee. This program is a long term -- rather than a cyclical -- approach to improving the climate for capital formation and productive investment in the United States. At least two points of this program, we believe, are pertinent to your present consideration of tax measures relating to economic performance.

I. <u>An increase in the surtax exemption level of the corporate income tax.</u>

Often the greatest need of small business is to conserve and expand *working capital* to improve day to day operations and, in some cases, to survive. It is generally agreed that the accelerating inflation of the past five years has had a particularly damaging effect on small business, further limiting its often costly access to capital markets and external financing and *greatly diminishing the value of existing tax relief provisions applying to small business.*

Primary among these provisions is the surtax exemption level basically set back in 1950 at $25,000. In the almost 25 years since then, its value has been greatly eroded by inflation. Yet it is still the "basic" small business relief provision having the widest application. It is important to note that with the recent phase-out of the *multiple* surtax exemption under the Tax Reform Act of 1969, charges of abuse of this exemption no longer apply as a reason for not increasing the level.

It is also instructive to note that the level of personal income tax exemptions, which this Committee has under consideration now, has been raised in five steps since 1948, from $500 to $750. In addition, of course, the standard deduction has been liberalized considerably and various measures, including the low-income allowance, have been introduced to give substantial specific relief to low-income individual taxpayers.

In the case of the corporate surtax exemption there has been no change since 1950 in its level. Although the Tax Reduction Act of 1964 did drop the normal tax by eight points from 30% to 22%, at the same time, the surtax itself, applying after $25,000 of taxable income, was raised from 22% to 26%. Thus only the very smallest of corporate enterprise received the full benefit of the 1964 tax rate reduction.

Senator Tower (R-TX) again has introduced legislation (S. 3146) to increase the surtax exemption level to $100,000. While this may have too much of a revenue impact to enact in one stroke at this time, if the level were raised to $40,000 or $50,000 initially, small business would achieve some significant relief with less than a $1 billion annual revenue impact.

II. Capital Cost Allowances

We believe Congress also should start to give serious consideration to a program for capital cost allowances to replace the present system of depreciation. We believe such a system also would be a material factor in removing bottlenecks to modernize and expand capacity in our basic industries -- bottlenecks in part caused by faulty government stabilization policies and in part by the spiraling costs of replacing capital assets, for which existing depreciation allowances, based on historical cost and the outdated "useful life" concept are unable to account. You have been exposed to the studies of the Machinery and Allied Products Institute and others indicating the startling degree of under-depreciation of productive plant and equipment due to accelerating inflation. These studies indicate that if present price trends continue, the value of the 7% investment credit and existing accelerated depreciation including the ADR system, will be inadequate even to offset current inflation.

One answer to this, of course, is price level depreciation, which would automatically increase depreciation allowances on the basis of the price index for capital goods or some overall prive indicator. We believe this approach has some merit, but there are both practical and substantive problems associated with it. A far simpler approach, we believe, is to provide for optional write-off periods completely independent of the actual retirement and replacement practices of a taxpayer, and independent of any estimated "useful life" of specific assets. We have suggested as an objective write-off periods substantially shorter than those now permitted under the Class Life System: for example, a *ten-year write-off for industrial buildings and a five-year write-off for all machinery and equipment.*

The capital allowance system has proven effective in Canada and other countries. Its adoption would place the United States in the forefront of industrialized nations with respect to capital recovery policy and would help to maintain both high levels of productivity advance and *real* wage payments.

Again, we have proposed the capital cost allowance system as a long-term approach to the problem of maintaining and increasing our basic productivity. We do not suggest it as any crash program in answer to a wiggle in the unemployment curve.

We recognize that the revenue impact of such a system could be substantial initially but the system could be phased in over a period of years. A commitment on the part of Congress to look at the merits of capital cost allowances appears in order.

## Appendix

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**Data Relating to Individual Income Tax Reductions—Tables Prepared for the Use of the Senate Committee on Finance by the Joint Committee on Internal Revenue Taxation**

# CONTENTS

# SUMMARY TABLES

## On Liberalizing the Provisions of Present Law

### Showing the Number of Returns Affected and the Change in Tax Liability IN THE AGGREGATE under 59 Alternatives to Present Law

TABLE 1.—SUMMARY TABLE OF THE EFFECT OF LIBERALIZING THE $1,300 MINIMUM STANDARD DEDUCTION WITHOUT CHANGING THE 15-PERCENT STANDARD DEDUCTION OR THE $2,000 MAXIMUM STANDARD DEDUCTION

[1972 income levels]

| Minimum standard deduction | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) | For the effect: By adjusted gross income class, see table | On tax burden by marital and dependents status, see table |
|---|---|---|---|---|---|---|
| $1,500 | 24,110 | 1,341 | 1,626 | $738 | 1A | 1a |
| $1,600 | 26,232 | 1,768 | 2,435 | 1,151 | 1B | 1b |
| $1,700 | 28,314 | 2,322 | 3,345 | 1,594 | 1C | 1c |
| $1,800 | 30,260 | 2,814 | 4,298 | 2,067 | 1D | 1d |
| $1,900 | 32,041 | 3,325 | 5,131 | 2,565 | 1E | 1e |
| $2,000 | 33,958 | 3,830 | 6,112 | 3,091 | 1F | 1f |

TABLE 2.—SUMMARY TABLE OF THE EFFECT OF LIBERALIZING THE 15-PERCENT PERCENTAGE STANDARD DEDUCTION WITHOUT CHANGING THE $1,300 MINIMUM STANDARD DEDUCTION OR THE $2,000 MAXIMUM STANDARD DEDUCTION

[1972 income levels]

| Percentage standard deduction | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) | For the effect: By adjusted gross income class, see table | On tax burden by marital and dependents status, see table |
|---|---|---|---|---|---|---|
| 16 percent | 10,110 | 12 | 536 | $184 | 2A | 2a |
| 18 percent | 13,565 | 12 | 1,662 | 541 | 2B | 2b |
| 20 percent | 16,483 | 39 | 2,515 | 872 | 2C | 2c |

TABLE 3.—SUMMARY TABLE OF THE EFFECT OF LIBERALIZING THE $2,000 MAXIMUM STANDARD DEDUCTION WITHOUT CHANGING THE $1,300 MINIMUM STANDARD DEDUCTION OR THE 15-PERCENT PERCENTAGE STANDARD DEDUCTION

[1972 income levels]

| Maximum standard deduction | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) | For the effect: By adjusted gross income class, see table | On tax burden by marital and dependents status, see table |
|---|---|---|---|---|---|---|
| $2,200 | 5,448 | (1) | 736 | $205 | 3A | 3a |
| $3,000 | 7,066 | (1) | 2,354 | 760 | 3B | 3b |
| $5,000 | 7,968 | (1) | 3,259 | 1,313 | 3C | 3c |
| No limit | 8,273 | (1) | 3,564 | 2,291 | 3D | 3d |

[1] Less than 500 returns.

TABLE 4.—SUMMARY TABLE OF THE EFFECT OF LIBERALIZING THE $1,300 MINIMUM STANDARD DEDUCTION AND THE $2,000 MAXIMUM STANDARD DEDUCTION WITHOUT CHANGING THE 15-PERCENT PERCENTAGE STANDARD DEDUCTION

[1972 income levels]

| Combination | | Number of returns affected (thousands) | | | | For the effect | |
|---|---|---|---|---|---|---|---|
| Minimum standard deduction | Maximum standard deduction | Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) | By adjusted gross income class, see table | On tax burden by marital and dependents status, see table |
| $1,500 | $3,000 | 31,175 | 1,341 | 3,980 | $1,498 | 4A | 4a |
| $1,500 | 5,000 | 32,078 | 1,341 | 4,885 | 2,050 | 4B | 4b |
| $1,600 | 2,500 | 32,534 | 1,768 | 4,025 | 1,609 | 4C | 4c |
| $1,600 | 3,000 | 33,297 | 1,768 | 4,789 | 1,912 | 4D | 4d |

TABLE 5.—SUMMARY TABLE OF THE EFFECT OF LIBERALIZING THE 15-PERCENT PERCENTAGE STANDARD DEDUCTION AND THE $1,300 MINIMUM STANDARD DEDUCTION AND/OR THE $2,000 MAXIMUM STANDARD DEDUCTION

[1972 income levels]

| Combination | | | Number of returns affected (thousands) | | | | For the effect | |
|---|---|---|---|---|---|---|---|---|
| Percentage standard deduction | Minimum standard deduction | Maximum standard deduction | Total number with tax decrease | Number made non-taxable | Number shifting to the standard deduction | Decrease in tax liability (millions) | By adjusted gross income class, see table | On tax burden by marital and dependents status, see table |
| 16 | $1,300 | (1) | 19,387 | 12 | 5,108 | $3,072 | 5A | 5a |
| 16 | 1,500 | (1) | 39,404 | 1,341 | 6,588 | 3,759 | 5B | 5b |
| 18 | 1,300 | $3,000 | 22,626 | 12 | 6,018 | 2,000 | 5C | 5c |
| 18 | 1,300 | 5,000 | 24,565 | 12 | 7,959 | 3,157 | 5D | 5d |
| 20 | 1,300 | 3,000 | 26,808 | 39 | 8,135 | 2,861 | 5E | 5e |
| 20 | 1,300 | 5,000 | 29,648 | 39 | 10,977 | 4,612 | 5F | 5f |
| 20 | 1,500 | 2,500 | 39,836 | 1,355 | 7,023 | 2,503 | 5G | 5g |
| 20 | 1,600 | 2,000 | 32,105 | 1,782 | 4,064 | 1,676 | 5H | 5h |
| 20 | 1,600 | 2,500 | 40,307 | 1,782 | 7,558 | 2,793 | 5I | 5i |
| 20 | 1,600 | 3,000 | 42,431 | 1,782 | 9,684 | 3,665 | 5J | 5j |
| 20 | 1,800 | 2,200 | 39,175 | 2,814 | 6,510 | 2,807 | 5K | 5k |

[1] No limit.

TABLE 6.—SUMMARY TABLE OF THE EFFECT OF LIBERALIZING THE $750 PERSONAL EXEMPTION DEDUCTION

[1972 income levels]

| Personal exemption deduction | Number of returns affected (thousands) | | Decrease in tax liability (millions) | For the effect | |
|---|---|---|---|---|---|
| | Total number with tax decrease | Number made nontaxable | | By adjusted gross income class, See table | On tax burden by marital and dependents status, see table |
| $780 | 60,940 | 526 | $1,073 | 6A | 6a |
| $800 | 60,940 | 778 | 1,782 | 6B | 6b |
| $810 [1] | 60,940 | 936 | 2,134 | 6C | 6c |
| $850 [2] | 60,940 | 1,404 | 3,419 | 6D | 6d |
| $850 | 60,940 | 1,592 | 3,531 | 6E | 6e |
| $900 | 60,940 | 2,337 | 5,251 | 6F | 6f |
| $1,000 | 60,940 | 3,902 | 8,595 | 6G | 6g |
| $1,500 | 60,940 | 11,305 | 23,510 | 6H | 6h |

[1] The $750 personal exemption deduction increased by 8 percent.
[2] With the extra personal exemption deduction for age or blindness remaining at $750.

TABLE 7.—SUMMARY TABLE OF THE EFFECT OF PROVIDING A TAX CREDIT IN LIEU OF, OR IN COMBINATION WITH, THE PERSONAL EXEMPTION DEDUCTION

[1972 income levels]

| | Returns with tax decrease | | | Returns with tax increase | | | For the effect— | |
|---|---|---|---|---|---|---|---|---|
| Tax credit | Total number with tax decrease (thousands) | Number made nontaxable (thousands) | Decrease in tax liability (millions) | Number of returns (thousands) | Increase in tax liability (millions) | Net change in tax liability (millions) | By adjusted gross income class, see table | On tax burden by marital and dependents status, see table |
| NONREFUNDABLE OPTIONAL TAX CREDIT IN LIEU OF THE $750 EXEMPTION | | | | | | | | |
| $150 | 29,507 | 3,361 | $1,008 | | | −$1,008 | 7A | 7a |
| $165 | 38,755 | 4,643 | 2,247 | | | −2,247 | 7B | 7b |
| $200 | 54,879 | 7,332 | 6,470 | | | −6,470 | 7C | 7c |
| $250 | 58,869 | 11,685 | 13,120 | | | −13,120 | 7D | 7d |
| $300 | 59,934 | 15,815 | 19,337 | | | −19,337 | 7E | 7e |
| NONREFUNDABLE OPTIONAL TAX CREDIT IN LIEU OF AN $850 EXEMPTION | | | | | | | | |
| $200 | 60,940 | 7,332 | $7,332 | | | −$7,332 | 7F | 7f |
| NONREFUNDABLE COMPULSORY TAX CREDIT IN LIEU OF THE $750 EXEMPTION | | | | | | | | |
| $150 | 29,507 | 3,361 | $1,008 | 31,435 | $3,529 | $2,520 | 7G | 7g |
| $165 | 38,755 | 4,643 | 2,247 | 18,267 | 2,325 | 78 | 7H | 7h |
| $200 | 54,879 | 7,332 | 6,470 | 6,062 | 1,082 | −5,388 | 7I | 7i |
| $250 | 58,869 | 11,685 | 13,120 | 2,071 | 504 | −12,616 | 7J | 7j |
| $300 | 59,934 | 15,815 | 19,337 | 975 | 235 | −19,102 | 7K | 7k |
| NONREFUNDABLE TAX CREDIT IN COMBINATION WITH THE $750 EXEMPTION | | | | | | | | |
| $25 | 60,940 | 2,802 | $4,253 | | | −$4,253 | 7L | 7l |

TABLE 8.—SUMMARY TABLE OF THE EFFECT OF LIBERALIZING THE $1,300 MINIMUM STANDARD DEDUCTION AND THE $750 PERSONAL EXEMPTION DEDUCTION WITHOUT CHANGING THE 15-PERCENT PERCENTAGE STANDARD DEDUCTION OR THE $2,000 MAXIMUM STANDARD DEDUCTION

[1972 income levels]

| Combination | | Number of returns affected (thousands) | | | | For the effect | |
|---|---|---|---|---|---|---|---|
| Minimum standard deduction | Personal exemption deduction | Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) | By adjusted gross income class, see table | On tax burden by marital and dependents status, see table |
| $1,400 | $850 | 60,940 | 2,194 | 1,061 | $3,866 | 8A | 8a |
| $1,500 | 850 | 60,940 | 2,644 | 1,888 | 4,230 | 8B | 8b |
| $1,600 | 850 | 60,940 | 3,215 | 2,663 | 4,626 | 8C | 8c |
| $1,700 | 850 | 60,940 | 3,659 | 3,552 | 5,050 | 8D | 8d |

TABLE 9.—SUMMARY TABLE OF THE EFFECT OF GRANTING A GENERAL NONREFUNDABLE TAX CREDIT TO FEDERAL INDIVIDUAL INCOME TAXPAYERS

[1972 income levels]

| General nonrefundable tax credit | Number of returns affected (thousands): Total number with tax decrease | Number of returns affected (thousands): Number made nontaxable | Decrease in tax liability (millions) | For the effect: By adjusted gross income class, see table | For the effect: On tax burden by marital and dependents status, see table |
|---|---|---|---|---|---|
| $12.50 per taxpayer | 60,940 | 946 | $1,247 | 9A | 9a |
| $13 per taxpayer | 60,940 | 949 | 1,296 | 9B | 9b |
| $25 per taxpayer | 60,940 | 1,918 | 2,476 | 9C | 9c |
| $27 per taxpayer | 60,940 | 2,039 | 2,671 | 9D | 9d |
| $35 per taxpayer | 60,940 | 2,477 | 3,449 | 9E | 9e |
| $50 per return | 60,940 | 2,551 | 2,939 | 9F | 9f |
| $50 per taxpayer | 60,940 | 3,307 | 4,891 | 9G | 9g |



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# DISTRIBUTIONAL TABLES

## On Liberalizing the MINIMUM STANDARD DEDUCTION

### Showing the Number of Returns Affected and the Change in Tax Liability, BY ADJUSTED GROSS INCOME CLASS, under Present Law and under 6 Alternatives

TABLE 1A.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MINIMUM STANDARD DEDUCTION FROM $1,300 TO $1,500, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) |
|---|---|---|---|---|
| 0 to $3 | 3,184 | 981 | 127 | $76 |
| $3 to $5 | 7,103 | 296 | 351 | 219 |
| $5 to $7 | 6,440 | 50 | 578 | 221 |
| $7 to $10 | 7,383 | 13 | 570 | 222 |
| $10 to $15 | 0 | 0 | 0 | 0 |
| $15 to $20 | 0 | 0 | 0 | 0 |
| $20 to $50 | 0 | 0 | 0 | 0 |
| $50 to $100 | 0 | 0 | 0 | 0 |
| $100 and over | 0 | 0 | 0 | 0 |
| Total | 24,110 | 1,341 | 1,626 | 738 |

Note: Details will not necessarily add to totals because of rounding.

TABLE 1B.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MINIMUM STANDARD DEDUCTION FROM $1,300 TO $1,600, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) |
|---|---|---|---|---|
| 0 to $3 | 3,188 | 1,243 | 145 | $105 |
| $3 to $5 | 7,193 | 427 | 473 | 326 |
| $5 to $7 | 6,762 | 85 | 859 | 337 |
| $7 to $10 | 7,704 | 13 | 904 | 368 |
| $10 to $15 | 1,386 | (1) | 54 | 15 |
| $15 to $20 | 0 | 0 | 0 | 0 |
| $20 to $50 | 0 | 0 | 0 | 0 |
| $50 to $100 | 0 | 0 | 0 | 0 |
| $100 and over | 0 | 0 | 0 | 0 |
| Total | 26,232 | 1,768 | 2,435 | 1,151 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 1C.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MINIMUM STANDARD DEDUCTION FROM $1,300 TO $1,700, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) |
|---|---|---|---|---|
| 0 to $3 | 3,204 | 1,587 | 161 | $130 |
| $3 to $5 | 7,306 | 572 | 618 | 431 |
| $5 to $7 | 7,027 | 135 | 1,081 | 455 |
| $7 to $10 | 8,138 | 28 | 1,339 | 522 |
| $10 to $15 | 2,638 | (1) | 147 | 56 |
| $15 to $20 | 0 | 0 | 0 | 0 |
| $20 to $50 | 0 | 0 | 0 | 0 |
| $50 to $100 | 0 | 0 | 0 | 0 |
| $100 and over | 0 | 0 | 0 | 0 |
| Total | 28,314 | 2,322 | 3,345 | 1,594 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 1D.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MINIMUM STANDARD DEDUCTION FROM $1,300 TO $1,800, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) |
|---|---|---|---|---|
| 0 to $3 | 3,204 | 1,847 | 178 | $150 |
| $3 to $5 | 7,410 | 771 | 756 | 535 |
| $5 to $7 | 7,262 | 143 | 1,260 | 577 |
| $7 to $10 | 8,472 | 52 | 1,673 | 682 |
| $10 to $15 | 3,912 | (1) | 432 | 122 |
| $15 to $20 | 0 | 0 | 0 | 0 |
| $20 to $50 | 0 | 0 | 0 | 0 |
| $50 to $100 | 0 | 0 | 0 | 0 |
| $100 and over | 0 | 0 | 0 | 0 |
| Total | 30,260 | 2,814 | 4,298 | 2,067 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals becuase of rounding.

TABLE 1E.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MINIMUM STANDARD DEDUCTION FROM $1,300 TO $1,900, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) |
|---|---|---|---|---|
| 0 to $3 | 3,204 | 2,135 | 178 | $167 |
| $3 to $5 | 7,446 | 958 | 820 | 636 |
| $5 to $7 | 7,394 | 180 | 1,391 | 700 |
| $7 to $10 | 8,795 | 52 | 2,010 | 846 |
| $10 to $15 | 5,201 | (1) | 731 | 215 |
| $15 to $20 | 0 | 0 | 0 | 0 |
| $20 to $50 | 0 | 0 | 0 | 0 |
| $50 to $100 | 0 | 0 | 0 | 0 |
| $100 and over | 0 | 0 | 0 | 0 |
| Total | 32,041 | 3,325 | 5,131 | 2,565 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 1F.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MINIMUM STANDARD DEDUCTION FROM $1,300 TO $2.000, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) |
|---|---|---|---|---|
| 0 to $3 | 3,221 | 2,428 | 208 | $179 |
| $3 to $5 | 7,488 | 1,148 | 902 | 734 |
| $5 to $7 | 7,599 | 205 | 1,541 | 825 |
| $7 to $10 | 9,195 | 52 | 2,410 | 1,018 |
| $10 to $15 | 6,455 | (1) | 1,051 | 336 |
| $15 to $20 | 0 | 0 | 0 | 0 |
| $20 to $50 | 0 | 0 | 0 | 0 |
| $50 to $100 | 0 | 0 | 0 | 0 |
| $100 and over | 0 | 0 | 0 | 0 |
| Total | 33,958 | 3,830 | 6,112 | 3,091 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

# TAX BURDEN TABLES

## On Liberalizing the MINIMUM STANDARD DEDUCTION

### Showing the TAX BURDEN by Marital Status and Number of Dependents, for Selected Income Levels, under Present Law and under 6 Alternatives

TABLE 1a.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $1,500 MINIMUM STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| Adjusted gross income | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $108 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 453 | [1] 322 | [1] $290 | [1] $208 | [1] $178 | [1] $98 | [1] $70 | | |
| $6,000 | [1] 681 | [1] 643 | [1] 484 | [1] 450 | [1] 362 | [1] 330 | [1] 245 | [1] 215 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,058 | [1] 848 | [1] 810 | [1] 706 | [1] 668 | [1] 563 | [1] 535 | [1] 322 | [1] $290 |
| $10,000 | 1,530 | 1,530 | 1,190 | 1,190 | 1,048 | 1,048 | 905 | 905 | 620 | 620 |
| $12,500 | 2,059 | 2,059 | 1,628 | 1,628 | 1,463 | 1,463 | 1,309 | 1,309 | 1,024 | 1,024 |
| $15,000 | 2,630 | 2,630 | 2,095 | 2,095 | 1,930 | 1,930 | 1,765 | 1,765 | 1,435 | 1,435 |
| $17,500 | 3,249 | 3,249 | 2,604 | 2,604 | 2,416 | 2,416 | 2,233 | 2,233 | 1,903 | 1,903 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,948 | 2,760 | 2,760 | 2,385 | 2,385 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 1b.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $1,600 MINIMUM STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| Adjusted gross income | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $93 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 434 | [1] 322 | [1] $275 | [1] $208 | [1] $163 | [1] $98 | [1] $56 | | |
| $6,000 | [1] 681 | [1] 624 | [1] 484 | [1] 434 | [1] 362 | [1] 314 | [1] 245 | [1] 200 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,037 | [1] 848 | [1] 791 | [1] 706 | [1] 649 | [1] 569 | [1] 518 | [1] 322 | [1] $275 |
| $10,000 | 1,530 | 1,506 | 1,190 | 1,171 | 1,048 | 1,029 | 905 | 886 | 620 | 603 |
| $12,500 | 2,059 | 2,059 | 1,628 | 1,628 | 1,463 | 1,463 | 1,309 | 1,309 | 1,024 | 1,024 |
| $15,000 | 2,630 | 2,630 | 2,095 | 2,095 | 1,930 | 1,930 | 1,765 | 1,765 | 1,435 | 1,435 |
| $17,500 | 3,249 | 3,249 | 2,604 | 2,604 | 2,416 | 2,416 | 2,233 | 2,233 | 1,903 | 1,903 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,948 | 2,760 | 2,760 | 2,385 | 2,385 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 1c.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $1,700 MINIMUM STANDARD DEDUCTION.

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $78 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 415 | [1] 322 | [1] $260 | [1] $208 | [1] $148 | [1] $98 | [1] $42 | | |
| $6,000 | [1] 681 | [1] 605 | [1] 484 | [1] 418 | [1] 362 | [1] 298 | [1] 245 | [1] 185 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,016 | [1] 848 | [1] 772 | [1] 706 | [1] 630 | [1] 569 | [1] 501 | [1] 322 | [1] $260 |
| $10,000 | 1,530 | 1,482 | 1,190 | 1,152 | 1,048 | 1,010 | 905 | 867 | 620 | 586 |
| $12,500 | 2,059 | 2,059 | 1,628 | 1,628 | 1,463 | 1,463 | 1,309 | 1,309 | 1,024 | 1,024 |
| $15,000 | 2,630 | 2,630 | 2,095 | 2,095 | 1,930 | 1,930 | 1,765 | 1,765 | 1,435 | 1,435 |
| $17,500 | 3,249 | 3,249 | 2,604 | 2,604 | 2,416 | 2,416 | 2,233 | 2,233 | 1,903 | 1,903 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,948 | 2,760 | 2,760 | 2,385 | 2,385 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 1d.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER AN $1,800 MINIMUM STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $63 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 396 | [1] 322 | [1] $245 | [1] $208 | [1] $133 | [1] $98 | [1] $28 | | |
| $6,000 | [1] 681 | [1] 586 | [1] 484 | [1] 402 | [1] 362 | [1] 283 | [1] 245 | [1] 170 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 995 | [1] 848 | [1] 753 | [1] 706 | [1] 612 | [1] 569 | [1] 484 | [1] 322 | [1] $245 |
| $10,000 | 1,530 | 1,458 | 1,190 | 1,133 | 1,048 | 991 | 905 | 848 | 620 | 569 |
| $12,500 | 2,059 | 2,059 | 1,628 | 1,628 | 1,463 | 1,463 | 1,309 | 1,309 | 1,024 | 1,024 |
| $15,000 | 2,630 | 2,630 | 2,095 | 2,095 | 1,930 | 1,930 | 1,765 | 1,765 | 1,435 | 1,435 |
| $17,500 | 3,249 | 3,249 | 2,604 | 2,604 | 2,416 | 2,416 | 2,233 | 2,233 | 1,903 | 1,903 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,948 | 2,760 | 2,760 | 2,385 | 2,385 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 1e.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $1,900 MINIMUM STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| Adjusted gross income | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $49 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 377 | [1] 322 | [1] $230 | [1] $208 | [1] $119 | [1] $98 | [1] $14 | | |
| $6,000 | [1] 681 | [1] 567 | [1] 484 | [1] 386 | [1] 362 | [1] 268 | [1] 245 | [1] 155 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 974 | [1] 848 | [1] 734 | [1] 706 | [1] 595 | [1] 569 | [1] 467 | [1] 322 | [1] $230 |
| $10,000 | 1,530 | 1,434 | 1,190 | 1,114 | 1,048 | 972 | 905 | 829 | 620 | 552 |
| $12,500 | 2,059 | 2,053 | 1,628 | 1,622 | 1,463 | 1,457 | 1,309 | 1,304 | 1,024 | 1,019 |
| $15,000 | 2,630 | 2,630 | 2,095 | 2,095 | 1,930 | 1,930 | 1,765 | 1,765 | 1,435 | 1,435 |
| $17,500 | 3,249 | 3,249 | 2,604 | 2,604 | 2,416 | 2,416 | 2,233 | 2,233 | 1,903 | 1,903 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,948 | 2,760 | 2,760 | 2,385 | 2,385 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 1f.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $2,000 MINIMUM STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| Adjusted gross income | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $35 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 358 | [1] 322 | [1] $215 | [1] $208 | [1] $105 | [1] $98 | | | |
| $6,000 | [1] 681 | [1] 548 | [1] 484 | [1] 370 | [1] 362 | [1] 253 | [1] 245 | [1] $140 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 953 | [1] 848 | [1] 715 | [1] 706 | [1] 578 | [1] 569 | [1] 450 | [1] 322 | [1] $215 |
| $10,000 | 1,530 | 1,410 | 1,190 | 1,095 | 1,048 | 953 | 905 | 810 | 620 | 535 |
| $12,500 | 2,059 | 2,028 | 1,628 | 1,600 | 1,463 | 1,435 | 1,309 | 1,285 | 1,024 | 1,000 |
| $15,000 | 2,630 | 2,630 | 2,095 | 2,095 | 1,930 | 1,930 | 1,765 | 1,765 | 1,435 | 1,435 |
| $17,500 | 3,249 | 3,249 | 2,604 | 2,604 | 2,416 | 2,416 | 2,233 | 2,233 | 1,903 | 1,903 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,948 | 2,760 | 2,760 | 2,385 | 2,385 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

# DISTRIBUTIONAL TABLES

## On Liberalizing the PERCENTAGE STANDARD DEDUCTION

### Showing the Number of Returns Affected and the Change in Tax Liability, BY ADJUSTED GROSS INCOME CLASS, under Present Law and under 3 Alternatives

TABLE 2A.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE PERCENTAGE STANDARD DEDUCTION FROM 15 PERCENT TO 16 PERCENT, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands) | | | Decrease in tax liability (millions) |
|---|---|---|---|---|
| | Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | |
| 0 to $3 | 0 | 0 | 0 | 0 |
| $3 to $5 | 128 | 12 | 24 | $1 |
| $5 to $7 | 247 | (1) | 27 | 2 |
| $7 to $10 | 3,964 | (1) | 122 | 63 |
| $10 to $15 | 5,771 | (1) | 363 | 118 |
| $15 to $20 | 0 | 0 | 0 | 0 |
| $20 to $50 | 0 | 0 | 0 | 0 |
| $50 to $100 | 0 | 0 | 0 | 0 |
| $100 and over | 0 | 0 | 0 | 0 |
| Total | 10,110 | 12 | 536 | 184 |

[1] Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 2B.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE PERCENTAGE STANDARD DEDUCTION FROM 15 PERCENT TO 18 PERCENT, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands) | | | Decrease in tax liability (millions) |
|---|---|---|---|---|
| | Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | |
| 0 to $3 | 0 | 0 | 0 | 0 |
| $3 to $5 | 215 | 12 | 40 | $3 |
| $5 to $7 | 275 | (1) | 55 | 5 |
| $7 to $10 | 6,743 | (1) | 637 | 254 |
| $10 to $15 | 6,332 | (1) | 930 | 278 |
| $15 to $20 | 0 | 0 | 0 | 0 |
| $20 to $50 | 0 | 0 | 0 | 0 |
| $50 to $100 | 0 | 0 | 0 | 0 |
| $100 and over | 0 | 0 | 0 | 0 |
| Total | 13,565 | 12 | 1,662 | 541 |

[1] Less thna 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 2C.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE PERCENTAGE STANDARD DEDUCTION FROM 15 PERCENT TO 20 PERCENT, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands) | | | Decrease in tax liability (millions) |
|---|---|---|---|---|
| | Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | |
| 0 to $3 | 0 | 0 | 0 | 0 |
| $3 to $5 | 294 | 12 | 72 | $7 |
| $5 to $7 | 1,621 | (1) | 92 | 20 |
| $7 to $10 | 8,114 | 28 | 1,301 | 510 |
| $10 to $15 | 6,454 | (1) | 1,051 | 336 |
| $15 to $20 | 0 | 0 | 0 | 0 |
| $20 to $50 | 0 | 0 | 0 | 0 |
| $50 to $100 | 0 | 0 | 0 | 0 |
| $100 and over | 0 | 0 | 0 | 0 |
| Total | 16,483 | 39 | 2,515 | 872 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

# TAX BURDEN TABLES

## On Liberalizing the PERCENTAGE STANDARD DEDUCTION

### Showing the TAX BURDEN by Marital Status and Number of Dependents, for Selected Income Levels, under Present Law and under 3 Alternatives

TABLE 2a.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A 16-PERCENT PERCENTAGE STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $138 | [1] $28 | [1] $28 | ... | ... | ... | ... | ... | ... |
| $5,000 | [1] 491 | [1] 491 | [1] 322 | [1] 322 | [1] $208 | [1] $208 | [1] $98 | [1] $98 | ... | ... |
| $6,000 | [1] 681 | [1] 681 | [1] 484 | [1] 484 | [1] 362 | [1] 362 | [1] 245 | [1] 245 | [1] $28 | [1] $28 |
| $8,000 | [1] 1,100 | [1] 1,100 | [1] 848 | [1] 848 | [1] 706 | [1] 706 | [1] 569 | [1] 569 | [1] 322 | [1] 322 |
| $10,000 | 1,530 | 1,506 | 1,190 | 1,171 | 1,048 | 1,029 | 905 | 886 | 620 | 603 |
| $12,500 | 2,059 | 2,028 | 1,628 | 1,600 | 1,463 | 1,435 | 1,309 | 1,285 | 1,024 | 1,000 |
| $15,000 | 2,630 | 2,630 | 2,095 | 2,095 | 1,930 | 1,930 | 1,765 | 1,765 | 1,435 | 1,435 |
| $17,500 | 3,249 | 3,249 | 2,604 | 2,604 | 2,416 | 2,416 | 2,233 | 2,233 | 1,903 | 1,903 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,948 | 2,760 | 2,760 | 2,385 | 2,385 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 2b.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER AN 18-PERCENT PERCENTAGE STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $138 | [1] $28 | [1] $28 | ... | ... | ... | ... | ... | ... |
| $5,000 | [1] 491 | [1] 491 | [1] 322 | [1] 322 | [1] $208 | [1] $208 | [1] $98 | [1] $98 | ... | ... |
| $6,000 | [1] 681 | [1] 681 | [1] 484 | [1] 484 | [1] 362 | [1] 362 | [1] 245 | [1] 245 | [1] $28 | [1] $28 |
| $8,000 | [1] 1,100 | [1] 1,070 | [1] 848 | [1] 821 | [1] 706 | [1] 679 | [1] 569 | [1] 545 | [1] 322 | [1] 300 |
| $10,000 | 1,530 | 1,458 | 1,190 | 1,133 | 1,048 | 991 | 905 | 848 | 620 | 569 |
| $12,500 | 2,059 | 2,028 | 1,628 | 1,600 | 1,463 | 1,435 | 1,309 | 1,285 | 1,024 | 1,000 |
| $15,000 | 2,630 | 2,630 | 2,095 | 2,095 | 1,930 | 1,930 | 1,765 | 1,765 | 1,435 | 1,435 |
| $17,500 | 3,249 | 3,249 | 2,604 | 2,604 | 2,416 | 2,416 | 2,233 | 2,233 | 1,903 | 1,903 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,948 | 2,760 | 2,760 | 2,385 | 2,385 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 2c.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A 20-PERCENTAGE STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted grossi ncome | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present aw | Under the alternative |
| $3,000 | [1] $138 | [1] $138 | [1] $28 | [1] $28 | ... | ... | ... | ... | ... | ... |
| $5,000 | [1] 491 | [1] 491 | [1] 322 | [1] 322 | [1] $208 | [1] $208 | [1] $98 | [1] $98 | ... | ... |
| $6,000 | [1] 681 | [1] 681 | [1] 484 | [1] 484 | [1] 362 | [1] 362 | [1] 245 | [1] 245 | [1] $28 | [1] $28 |
| $8,000 | [1] 1,100 | [1] 1,037 | [1] 848 | [1] 791 | [1] 706 | [1] 649 | [1] 569 | [1] 518 | [1] 322 | [1] 275 |
| $10,000 | 1,530 | 1,410 | 1,190 | 1,095 | 1,048 | 953 | 905 | 810 | 620 | 535 |
| $12,500 | 2,059 | 2,028 | 1,628 | 1,600 | 1,463 | 1,435 | 1,309 | 1,285 | 1,024 | 1,000 |
| $15,000 | 2,630 | 2,630 | 2,095 | 2,095 | 1,930 | 1,930 | 1,765 | 1,765 | 1,435 | 1,435 |
| $17,500 | 3,249 | 3,249 | 2,604 | 2,604 | 2,416 | 2,416 | 2,233 | 2,233 | 1,903 | 1,903 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,948 | 2,760 | 2,760 | 2,385 | 2,385 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

# DISTRIBUTIONAL TABLES

## On Liberalizing the MAXIMUM STANDARD DEDUCTION

### Showing the Number of Returns Affected and the Change in Tax Liability, BY ADJUSTED GROSS INCOME CLASS, under Present Law and under 4 Alternatives

TABLE 3A.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MAXIMUM STANDARD DEDUCTION FROM $2,000 TO $2,200, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) |
|---|---|---|---|---|
| 0 to $3 | 0 | 0 | 0 | 0 |
| $3 to $5 | 0 | 0 | 0 | 0 |
| $5 to $7 | 40 | (1) | (1) | (1) |
| $7 to $10 | 150 | (1) | 13 | $3 |
| $10 to $15 | 1,962 | (1) | 145 | 45 |
| $15 to $20 | 2,507 | (1) | 444 | 112 |
| $20 to $50 | 774 | (1) | 132 | 44 |
| $50 to $100 | 11 | (1) | 2 | 1 |
| $100 and over | 2 | (1) | (1) | (1) |
| Total | 5,448 | (1) | 736 | 205 |

[1] Less than 500 returns or $500,000.

Note: Details will not necessarily add to totals because of rounding.

TABLE 3B.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MAXIMUM STANDARD DEDUCTION FROM $2,000 TO $3,000, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) |
|---|---|---|---|---|
| 0 to $3 | 0 | 0 | 0 | 0 |
| $3 to $5 | 0 | 0 | 0 | 0 |
| $5 to $7 | 40 | (1) | (1) | (1) |
| $7 to $10 | 166 | (1) | 29 | $7 |
| $10 to $15 | 1,975 | (1) | 158 | 53 |
| $15 to $20 | 3,325 | (1) | 1,262 | 374 |
| $20 to $50 | 1,528 | (1) | 885 | 315 |
| $50 to $100 | 28 | (1) | 19 | 9 |
| $100 and over | 3 | (1) | 1 | 1 |
| Total | 7,066 | (1) | 2,354 | 760 |

[1] Less than 500 returns or $500,000.

Note: Details will not necessarily add to totals because of rounding.

TABLE 3C.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MAXIMUM STANDARD DEDUCTION FROM $2,000 TO $5,000, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) |
|---|---|---|---|---|
| 0 to $3 | 0 | 0 | 0 | 0 |
| $3 to $5 | 0 | 0 | 0 | 0 |
| $5 to $7 | 40 | (1) | (1) | (1) |
| $7 to $10 | 166 | (1) | 29 | $7 |
| $10 to $15 | 1,991 | (1) | 174 | 58 |
| $15 to $20 | 3,347 | (1) | 1,284 | 380 |
| $20 to $50 | 2,336 | (1) | 1,694 | 796 |
| $50 to $100 | 82 | (1) | 73 | 64 |
| $100 and over | 7 | (1) | 6 | 8 |
| Total | 7,968 | (1) | 3,259 | 1,313 |

1 Less than 500 returns or $500,000.

Note: Details will not necessarily add to totals because of rounding.

TABLE 3D.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MAXIMUM STANDARD DEDUCTION FROM $2,000 TO "NO LIMIT," BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) |
|---|---|---|---|---|
| 0 to $3 | 0 | 0 | 0 | 0 |
| $3 to $5 | 0 | 0 | 0 | 0 |
| $5 to $7 | 40 | (1) | (1) | (1) |
| $7 to $10 | 166 | (1) | 29 | $7 |
| $10 to $15 | 1,991 | (1) | 174 | 58 |
| $15 to $20 | 3,347 | (1) | 1,284 | 380 |
| $20 to $50 | 2,447 | (1) | 1,806 | 939 |
| $50 to $100 | 231 | (1) | 223 | 464 |
| $100 and over | 51 | (1) | 50 | 442 |
| Total | 8,273 | (1) | 3,564 | 2,291 |

1 Less than 500 returns or $500,000.

Note: Details will not necessarily add to totals because of rounding.

# TAX BURDEN TABLES

## On Liberalizing the MAXIMUM STANDARD DEDUCTION

Showing the TAX BURDEN by Marital Status and Number of Dependents, for Selected Income Levels, under Present Law and under 4 Alternatives

TABLES 3 a, b, c, AND d.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $2,200 $3,000, $5,000, AND "NO LIMIT" MAXIMUM STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternatives | Under present law | Under the alternatives | Under present law | Under the alternatives | Under present law | Under the alternatives | Under present law | Under the alternatives |
| $3,000 | [1] $138 | (2) | [1] $28 | (2) | -------- | (2) | -------- | (2) | -------- | (2) |
| $5,000 | [1] 491 | (2) | [1] 322 | (2) | [1] $208 | (2) | [1] $98 | (2) | -------- | (2) |
| $6,000 | [1] 681 | (2) | [1] 484 | (2) | [1] 362 | (2) | [1] 245 | (2) | [1] $28 | (2) |
| $8,000 | [1] 1,100 | (2) | [1] 848 | (2) | [1] 706 | (2) | [1] 569 | (2) | [1] 322 | (2) |
| $10,000 | 1,530 | (2) | 1,190 | (2) | 1,048 | (2) | 905 | (2) | 620 | (2) |
| $12,500 | 2,059 | (2) | 1,628 | (2) | 1,463 | (2) | 1,309 | (2) | 1,024 | (2) |
| $15,000 | 2,630 | (2) | 2,095 | (2) | 1,930 | (2) | 1,765 | (2) | 1,435 | (2) |
| $17,500 | 3,249 | (2) | 2,604 | (2) | 2,416 | (2) | 2,233 | (2) | 1,903 | (2) |
| $20,000 | 3,915 | (2) | 3,135 | (2) | 2,948 | (2) | 2,760 | (2) | 2,385 | (2) |
| $25,000 | 5,420 | (2) | 4,310 | (2) | 4,100 | (2) | 3,890 | (2) | 3,470 | (2) |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.
[2] Because this table assumes deductible personal expenses of 15 percent of income which coincides with the 15-percent percentage standard deduction the tax under the alternatives is the same as the tax under present law.

# DISTRIBUTIONAL TABLES

## On Liberalizing the MINIMUM AND MAXIMUM STANDARD DEDUCTIONS

### Showing the Number of Returns Affected and the Change in Tax Liability, BY ADJUSTED GROSS INCOME CLASS, under Present Law and under 4 Alternatives

TABLE 4A.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MINIMUM STANDARD DEDUCTION FROM $1,300 TO $1,500 AND THE MAXIMUM STANDARD DEDUCTION FROM $2,000 TO $3,000, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) |
|---|---|---|---|---|
| 0 to $3 | 3,184 | 981 | 127 | $76 |
| $3 to $5 | 7,102 | 296 | 351 | 219 |
| $5 to $7 | 6,480 | 50 | 578 | 221 |
| $7 to $10 | 7,548 | 13 | 598 | 229 |
| $10 to $15 | 1,975 | (1) | 158 | 53 |
| $15 to $20 | 3,325 | (1) | 1,262 | 374 |
| $20 to $50 | 1,528 | (1) | 885 | 315 |
| $50 to $100 | 28 | (1) | 19 | 9 |
| $100 and over | 3 | (1) | 1 | 1 |
| Total | 31,175 | 1,341 | 3,980 | 1,498 |

[1] Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 4B.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MINIMUM STANDARD DEDUCTION FROM $1,300 TO $1,500 AND THE MAXIMUM STANDARD DEDUCTION FROM $2,000 TO $5,000, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) |
|---|---|---|---|---|
| 0 to $3 | 3,184 | 981 | 127 | $76 |
| $3 to $5 | 7,103 | 296 | 351 | 219 |
| $5 to $7 | 6,480 | 50 | 578 | 221 |
| $7 to $10 | 7,548 | 13 | 598 | 229 |
| $10 to $15 | 1,991 | (1) | 174 | 58 |
| $15 to $20 | 3,347 | (1) | 1,284 | 380 |
| $20 to $50 | 2,336 | (1) | 1,694 | 796 |
| $50 to $100 | 82 | (1) | 73 | 64 |
| $100 and over | 7 | (1) | 6 | 8 |
| Total | 32,078 | 1,341 | 4,885 | 2,050 |

[1] Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 4C.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MINIMUM STANDARD DEDUCTION FROM $1,300 TO $1,600 AND THE MAXIMUM STANDARD DEDUCTION FROM $2,000 TO $2,500, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands) | | | Decrease in tax liability (millions) |
|---|---|---|---|---|
| | Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | |
| 0 to 3 | 3,188 | 1,243 | 145 | $105 |
| $3 to $5 | 7,193 | 427 | 473 | 326 |
| $5 to $7 | 6,802 | 85 | 859 | 337 |
| $7 to $10 | 7,869 | 13 | 933 | 374 |
| $10 to $15 | 3,361 | (1) | 212 | 64 |
| $15 to $20 | 3,086 | (1) | 1,023 | 274 |
| $20 to $50 | 1,016 | (1) | 373 | 125 |
| $50 to $100 | 17 | (1) | 7 | 3 |
| $100 and over | 2 | (1) | (1) | 1 |
| Total | 32,534 | 1,768 | 4,025 | 1,609 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 4D.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MINIMUM STANDARD DEDUCTION FROM $1,300 TO $1,600 AND THE MAXIMUM STANDARD DEDUCTION FROM $2,000 TO $3,000, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands) | | | Decrease in tax liability (millions) |
|---|---|---|---|---|
| | Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | |
| 0 to $3 | 3,188 | 1,243 | 145 | $105 |
| $3 to $5 | 7,193 | 427 | 473 | 326 |
| $5 to $7 | 6,802 | 85 | 859 | 337 |
| $7 to $10 | 7,869 | 13 | 933 | 375 |
| $10 to $15 | 3,361 | (1) | 212 | 69 |
| $15 to $20 | 3,325 | (1) | 1,262 | 374 |
| $20 to $50 | 1,528 | (1) | 885 | 315 |
| $50 to $100 | 28 | (1) | 19 | 9 |
| $100 and over | 3 | (1) | 1 | 1 |
| Total | 33,297 | 1,768 | 4,789 | 1,912 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

# TAX BURDEN TABLES

## On Liberalizing the MINIMUM AND MAXIMUM STANDARD DEDUCTIONS

### Showing the TAX BURDEN by Marital Status and Number of Dependents, for Selected Income Levels, under Present Law and under 4 Alternatives

TABLE 4a.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $1,500 MINIMUM STANDARD DEDUCTION AND A $3,000 MAXIMUM STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| Adjusted gross income | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $108 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 453 | [1] 322 | [1] $290 | [1] $208 | [1] $178 | [1] $98 | [1] $70 | | |
| $6,000 | [1] 681 | [1] 643 | [1] 484 | [1] 450 | [1] 362 | [1] 330 | [1] 245 | [1] 215 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,058 | [1] 848 | [1] 810 | [1] 706 | [1] 668 | [1] 569 | [1] 535 | [1] 322 | [1] $290 |
| $10,000 | 1,530 | 1,530 | 1,190 | 1,190 | 1,048 | 1,048 | 905 | 905 | 620 | 620 |
| $12,500 | 2,059 | 2,059 | 1,628 | 1,628 | 1,463 | 1,463 | 1,309 | 1,309 | 1,024 | 1,024 |
| $15,000 | 2,630 | 2,630 | 2,095 | 2,095 | 1,930 | 1,930 | 1,765 | 1,765 | 1,435 | 1,435 |
| $17,500 | 3,249 | 3,249 | 2,604 | 2,604 | 2,416 | 2,416 | 2,233 | 2,233 | 1,903 | 1,903 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,948 | 2,760 | 2,760 | 2,385 | 2,385 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 4b.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $1,500 MINIMUM STANDARD DEDUCTION AND A $5,000 MAXIMUM STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| Adjusted gross income | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $108 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 453 | [1] 322 | [1] $290 | [1] $208 | [1] $178 | [1] $98 | [1] $70 | | |
| $6,000 | [1] 681 | [1] 643 | [1] 484 | [1] 450 | [1] 362 | [1] 330 | [1] 245 | [1] 215 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,058 | [1] 848 | [1] 810 | [1] 706 | [1] 668 | [1] 569 | [1] 535 | [1] 322 | [1] $290 |
| $10,000 | 1,530 | 1,530 | 1,190 | 1,190 | 1,048 | 1,048 | 905 | 905 | 620 | 620 |
| $12,500 | 2,059 | 2,059 | 1,628 | 1,628 | 1,463 | 1,463 | 1,309 | 1,309 | 1,024 | 1,024 |
| $15,000 | 2,630 | 2,630 | 2,095 | 2,095 | 1,930 | 1,930 | 1,765 | 1,765 | 1,435 | 1,435 |
| $17,500 | 3,249 | 3,249 | 2,604 | 2,604 | 2,416 | 2,416 | 2,233 | 2,233 | 1,903 | 1,903 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,948 | 2,760 | 2,760 | 2,385 | 2,385 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.



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TABLE 4c.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $1,600 MINIMUM STANDARD DEDUCTION AND A $2,500 MAXIMUM STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $93 | [1] $28 | ... | ... | ... | ... | ... | ... | ... |
| $5,000 | [1] 491 | [1] 434 | [1] 322 | [1] $275 | [1] $208 | [1] $163 | [1] $98 | [1] $56 | ... | ... |
| $6,000 | [1] 681 | [1] 624 | [1] 484 | [1] 434 | [1] 362 | [1] 314 | [1] 245 | [1] 200 | [1] $28 | ... |
| $8,000 | [1] 1,100 | [1] 1,037 | [1] 848 | [1] 791 | [1] 706 | [1] 649 | [1] 569 | [1] 518 | [1] 322 | [1] $275 |
| $10,000 | 1,530 | 1,506 | 1,190 | 1,171 | 1,048 | 1,029 | 905 | 886 | 620 | 603 |
| $12,500 | 2,059 | 2,059 | 1,628 | 1,628 | 1,463 | 1,463 | 1,309 | 1,309 | 1,024 | 1,024 |
| $15,000 | 2,630 | 2,630 | 2,095 | 2,095 | 1,930 | 1,930 | 1,765 | 1,765 | 1,435 | 1,435 |
| $17,500 | 3,249 | 3,249 | 2,604 | 2,604 | 2,416 | 2,416 | 2,233 | 2,233 | 1,903 | 1,903 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,948 | 2,760 | 2,760 | 2,385 | 2,385 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 4d.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $1,600 MINIMUM STANDARD DEDUCTION AND A $3,000 MAXIMUM STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $ 93 | [1] $28 | ... | ... | ... | ... | ... | ... | ... |
| $5,000 | [1] 491 | [1] 434 | [1] 322 | [1] $275 | [1] $208 | [1] $163 | [1] $98 | [1] $56 | ... | ... |
| $6,000 | [1] 681 | [1] 624 | [1] 484 | [1] 434 | [1] 362 | [1] 314 | [1] 245 | [1] 200 | [1] $28 | ... |
| $8,000 | [1] 1,100 | [1] 1,037 | [1] 848 | [1] 791 | [1] 706 | [1] 649 | [1] 569 | [1] 518 | [1] 322 | [1] $275 |
| $10,000 | 1,530 | 1,506 | 1,190 | 1,171 | 1,048 | 1,029 | 905 | 886 | 620 | 603 |
| $12,500 | 2,059 | 2,059 | 1,628 | 1,628 | 1,463 | 1,463 | 1,309 | 1,309 | 1,024 | 1,024 |
| $15,000 | 2,630 | 2,630 | 2,095 | 2,095 | 1,930 | 1,930 | 1,765 | 1,765 | 1,435 | 1,435 |
| $17,500 | 3,249 | 3,249 | 2,604 | 2,604 | 2,416 | 2,416 | 2,233 | 2,233 | 1,903 | 1,903 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,948 | 2,760 | 2,760 | 2,385 | 2,385 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

# DISTRIBUTIONAL TABLES

## On Liberalizing the PERCENTAGE STANDARD DEDUCTION AND THE MINIMUM STANDARD DEDUCTION AND/OR THE MAXIMUM STANDARD DEDUCTION

### Showing the Number of Returns, Affected and the Change in Tax Liability, BY ADJUSTED GROSS INCOME CLASS, Under Present Law and Under 11 Alternatives

TABLE 5A.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE PERCENTAGE STANDARD DEDUCTION FROM 15 PERCENT TO 16 PERCENT AND THE MAXIMUM STANDARD DEDUCTION FROM $2,000 TO "NO LIMIT", BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) |
|---|---|---|---|---|
| 0 to $3 | 0 | 0 | 0 | 0 |
| $3 to $5 | 128 | 12 | 24 | $1 |
| $5 to $7 | 287 | (1) | 27 | 3 |
| $7 to $10 | 4,145 | (1) | 166 | 73 |
| $10 to $15 | 8,068 | (1) | 841 | 259 |
| $15 to $20 | 3,734 | (1) | 1,676 | 528 |
| $20 to $50 | 2,718 | (1) | 2,076 | 1,161 |
| $50 to $100 | 253 | (1) | 245 | 546 |
| $100 and over | 55 | (1) | 53 | 501 |
| Total | 19,387 | 12 | 5,108 | 3,072 |

[1] Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 5B.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MINIMUM STANDARD DEDUCTION FROM $1,300 to $1,500, THE PERCENTAGE STANDARD DEDUCTION FROM 15 PERCENT TO 16 PERCENT, AND THE MAXIMUM STANDARD DEDUCTION FROM $2,000 TO "NO LIMIT", BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) |
|---|---|---|---|---|
| 0 to $3 | 3,184 | 981 | 127 | $76 |
| $3 to $5 | 7,103 | 296 | 351 | 219 |
| $5 to $7 | 6,727 | 50 | 606 | 224 |
| $7 to $10 | 7,563 | 13 | 613 | 245 |
| $10 to $15 | 8,068 | (1) | 841 | 259 |
| $15 to $20 | 3,734 | (1) | 1,676 | 528 |
| $20 to $50 | 2,718 | (1) | 2,076 | 1,161 |
| $50 to $100 | 253 | (1) | 245 | 546 |
| $100 and over | 55 | (1) | 53 | 501 |
| Total | 39,404 | 1,341 | 6,588 | 3,759 |

[1] Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 5C.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE PERCENTAGE STANDARD DEDUCTION FROM 15 PERCENT TO 18 PERCENT AND THE MAXIMUM STANDARD DEDUCTION FROM $2,000 TO $3,000, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) |
|---|---|---|---|---|
| 0 to $3 | 0 | 0 | 0 | 0 |
| $3 to $5 | 215 | 12 | 40 | $3 |
| $5 to $7 | 315 | (1) | 55 | 11 |
| $7 to $10 | 6,958 | (1) | 715 | 269 |
| $10 to $15 | 9,432 | (1) | 2,219 | 700 |
| $15 to $20 | 4,146 | (1) | 2,083 | 692 |
| $20 to $50 | 1,528 | (1) | 885 | 315 |
| $50 to $100 | 28 | (1) | 19 | 9 |
| $100 and over | 3 | (1) | 1 | 1 |
| Total | 22,626 | 12 | 6,018 | 2,000 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 5D.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE PERCENTAGE STANDARD DEDUCTION FROM 15 PERCENT TO 18 PERCENT AND THE MAXIMUM STANDARD DEDUCTION FROM $2,000 TO $5,000, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) |
|---|---|---|---|---|
| 0 to $3 | 0 | 0 | 0 | 0 |
| $3 to $5 | 215 | 12 | 40 | $3 |
| $5 to $7 | 315 | (1) | 55 | 11 |
| $7 to $10 | 6,977 | (1) | 734 | 271 |
| $10 to $15 | 9,465 | (1) | 2,252 | 713 |
| $15 to $20 | 4,497 | (1) | 2,434 | 861 |
| $20 to $50 | 3,007 | (1) | 2,366 | 1,227 |
| $50 to $100 | 82 | (1) | 73 | 64 |
| $100 and over | 7 | (1) | 6 | 8 |
| Total | 24,565 | 12 | 7,959 | 3,157 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 5E.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE PERCENTAGE STANDARD DEDUCTION FROM 15 PERCENT TO 20 PERCENT AND THE MAXIMUM STANDARD DEDUCTION FROM $2,000 TO $3,000, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands) | | | Decrease in tax liability (millions) |
|---|---|---|---|---|
| | Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | |
| 0 to $3 | 0 | 0 | 0 | 0 |
| $3 to $5 | 294 | 12 | 72 | $7 |
| $5 to $7 | 1,661 | (1) | 92 | 31 |
| $7 to $10 | 8,329 | 28 | 1,379 | 527 |
| $10 to $15 | 10,631 | (1) | 3,417 | 1,211 |
| $15 to $20 | 4,333 | (1) | 2,270 | 759 |
| $20 to $50 | 1,528 | (1) | 885 | 315 |
| $50 to $100 | 28 | (1) | 19 | 9 |
| $100 and over | 3 | (1) | 1 | 1 |
| Total | 26,808 | 39 | 8,135 | 2,861 |

[1] Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 5F.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE PERCENTAGE STANDARD DEDUCTION FROM 15 PERCENT TO 20 PERCENT AND THE MAXIMUM STANDARD DEDUCTION FROM $2,000 TO $5,000, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands) | | | Decrease in tax liability (millions) |
|---|---|---|---|---|
| | Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | |
| 0 to $3 | 0 | 0 | 0 | 0 |
| $3 to $5 | 294 | 12 | 72 | $7 |
| $5 to $7 | 1,661 | (1) | 92 | 31 |
| $7 to $10 | 8,363 | 28 | 1,413 | 535 |
| $10 to $15 | 10,681 | (1) | 3,468 | 1,229 |
| $15 to $20 | 5,239 | (1) | 3,176 | 1,251 |
| $20 to $50 | 3,320 | (1) | 2,679 | 1,487 |
| $50 to $100 | 82 | (1) | 73 | 64 |
| $100 and over | 7 | (1) | 6 | 8 |
| Total | 29,648 | 39 | 10,977 | 4,612 |

[1] Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 5G.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MINIMUM STANDARD DEDUCTION FROM $1,300 TO $1,500, THE PERCENTAGE STANDARD DEDUCTION FROM 15 PERCENT TO 20 PERCENT, AND THE MAXIMUM STANDARD DEDUCTION FROM $2,000 TO $2,500, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands) | | | Decrease in tax liability (millions) |
|---|---|---|---|---|
| | Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | |
| 0 to $3 | 3, 184 | 981 | 127 | $76 |
| $3 to $5 | 7, 135 | 296 | 383 | 223 |
| $5 to $7 | 6, 770 | 50 | 649 | 237 |
| $7 to $10 | 8, 298 | 28 | 1, 348 | 532 |
| $10 to $15 | 10, 196 | (1) | 2, 981 | 989 |
| $15 to $20 | 3, 219 | (1) | 1, 155 | 317 |
| $20 to $50 | 1, 016 | (1) | 373 | 125 |
| $50 to $100 | 17 | (1) | 7 | 3 |
| $100 and over | 2 | (1) | (1) | 1 |
| Total | 39, 836 | 1, 355 | 7, 023 | 2, 503 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 5H.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MINIMUM STANDARD DEDUCTION FROM $1,300 TO $1,600 AND THE PERCENTAGE STANDARD DEDUCTION FROM 15 PERCENT TO 20 PERCENT, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands) | | | Decrease in tax liability (millions) |
|---|---|---|---|---|
| | Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | |
| 0 to $3 | 3, 188 | 1, 243 | 145 | $105 |
| $3 to $5 | 7, 193 | 427 | 473 | 329 |
| $5 to $7 | 7, 006 | 85 | 929 | 343 |
| $7 to $10 | 8, 265 | 28 | 1, 466 | 564 |
| $10 to $15 | 6, 454 | (1) | 1, 051 | 336 |
| $15 to $20 | 0 | 0 | 0 | 0 |
| $20 to $50 | 0 | 0 | 0 | 0 |
| $50 to $100 | 0 | 0 | 0 | 0 |
| $100 and over | 0 | 0 | 0 | 0 |
| Total | 32, 105 | 1, 782 | 4, 064 | 1, 676 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 5I.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MINIMUM STANDARD DEDUCTION FROM $1,300 TO $1,600, THE PERCENTAGE STANDARD DEDUCTION FROM 15 PERCENT TO 20 PERCENT, AND THE MAXIMUM STANDARD DEDUCTION FROM $2,000 TO $2,500, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) |
|---|---|---|---|---|
| 0 to $3 | 3,188 | 1,243 | 145 | $105 |
| $3 to $5 | 7,193 | 427 | 473 | 329 |
| $5 to $7 | 7,046 | 85 | 929 | 352 |
| $7 to $10 | 8,431 | 28 | 1,494 | 572 |
| $10 to $15 | 10,196 | (1) | 2,981 | 989 |
| $15 to $20 | 3,219 | (1) | 1,155 | 317 |
| $20 to $50 | 1,016 | (1) | 373 | 125 |
| $50 to $100 | 17 | (1) | 7 | 3 |
| $100 and over | 2 | (1) | (1) | 1 |
| Total | 40,307 | 1,782 | 7,558 | 2,793 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 5J.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MINIMUM STANDARD DEDUCTION FROM $1,300 TO $1,600, THE PERCENTAGE STANDARD DEDUCTION FROM 15 PERCENT TO 20 PERCENT, AND THE MAXIMUM STANDARD DEDUCTION FROM $2,000 TO $3,000, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) |
|---|---|---|---|---|
| 0 to $3 | 3,188 | 1,243 | 145 | $105 |
| $3 to $5 | 7,193 | 427 | 473 | 329 |
| $5 to $7 | 7,046 | 85 | 929 | 354 |
| $7 to $10 | 8,480 | 28 | 1,544 | 581 |
| $10 to $15 | 10,631 | (1) | 3,417 | 1,211 |
| $15 to $20 | 4,333 | (1) | 2,270 | 759 |
| $20 to $50 | 1,528 | (1) | 885 | 315 |
| $50 to $100 | 28 | (1) | 19 | 9 |
| $100 and over | 3 | (1) | 1 | 1 |
| Total | 42,431 | 1,782 | 9,684 | 3,665 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 5K.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MINIMUM STANDARD DEDUCTION FROM $1,300 TO $1,800, THE PERCENTAGE STANDARD DEDUCTION FROM 15 PERCENT TO 20 PERCENT, AND THE MAXIMUM STANDARD DEDUCTION FROM $2,000 TO $2,200, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) |
|---|---|---|---|---|
| 0 to $3 | 3,204 | 1,847 | 178 | $150 |
| $3 to $5 | 7,410 | 771 | 756 | 536 |
| $5 to $7 | 7,391 | 143 | 1,275 | 587 |
| $7 to $10 | 8,772 | 52 | 1,836 | 736 |
| $10 to $15 | 9,102 | (1) | 1,887 | 642 |
| $15 to $20 | 2,507 | (1) | 444 | 112 |
| $20 to $50 | 774 | (1) | 132 | 44 |
| $50 to $100 | 11 | (1) | 2 | 1 |
| $100 and over | 2 | (1) | (1) | (1) |
| Total | 39,175 | 2,814 | 6,510 | 2,807 |

1 Less than 500 returns, or $500,000.

Note: Details will not necessarily add to totals because of rounding.

# TAX BURDEN TABLES

## On Liberalizing the PERCENTAGE STANDARD DEDUCTION AND THE MINIMUM STANDARD DEDUCTION AND/OR THE MAXIMUM STANDARD DEDUCTION

### Showing the TAX BURDEN by Marital Status and Number of Dependents, for Selected Income Levels, Under Present Law and Under 11 Alternatives

TABLE 5a.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A 16-PERCENT PERCENTAGE STANDARD DEDUCTION AND A "NO-LIMIT" MAXIMUM STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $138 | [1] $28 | [1] $28 | ... | ... | ... | ... | ... | ... |
| $5,000 | [1] 491 | [1] 491 | [1] 322 | [1] 322 | [1] $208 | [1] $208 | [1] $98 | [1] $98 | ... | ... |
| $6,000 | [1] 681 | [1] 681 | [1] 484 | [1] 484 | [1] 362 | [1] 362 | [1] 245 | [1] 245 | [1] $28 | [1] $28 |
| $8,000 | [1] 1,100 | [1] 1,100 | [1] 848 | [1] 848 | [1] 706 | [1] 706 | [1] 569 | [1] 569 | [1] 322 | [1] 322 |
| $10,000 | 1,530 | 1,506 | 1,190 | 1,171 | 1,048 | 1,029 | 905 | 886 | 620 | 603 |
| $12,500 | 2,059 | 2,028 | 1,628 | 1,600 | 1,463 | 1,435 | 1,309 | 1,285 | 1,024 | 1,000 |
| $15,000 | 2,630 | 2,590 | 2,095 | 2,062 | 1,930 | 1,897 | 1,765 | 1,732 | 1,435 | 1,402 |
| $17,500 | 3,249 | 3,196 | 2,604 | 2,560 | 2,416 | 2,373 | 2,233 | 2,194 | 1,903 | 1,864 |
| $20,000 | 3,915 | 3,847 | 3,135 | 3,085 | 2,984 | 2,898 | 2,760 | 2,710 | 2,385 | 2,335 |
| $25,000 | 5,420 | 5,325 | 4,310 | 4,240 | 4,100 | 4,030 | 3,890 | 3,820 | 3,470 | 3,400 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 5b.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $1,500 MINIMUM STANDARD DEDUCTION, A 16-PERCENT PERCENTAGE STANDARD DEDUCTION, AND A "NO LIMIT" MAXIMUM STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $108 | [1] $28 | ... | ... | ... | ... | ... | ... | ... |
| $5,000 | [1] 491 | [1] 453 | [1] 322 | [1] $290 | [1] $208 | [1] $178 | [1] $98 | [1] $70 | ... | ... |
| $6,000 | [1] 681 | [1] 643 | [1] 484 | [1] 450 | [1] 362 | [1] 330 | [1] 245 | [1] 215 | [1] $28 | ... |
| $8,000 | [1] 1,100 | [1] 1,058 | [1] 848 | [1] 810 | [1] 706 | [1] 668 | [1] 569 | [1] 535 | [1] 322 | $290 |
| $10,000 | 1,530 | 1,506 | 1,190 | 1,171 | 1,048 | 1,029 | 905 | 886 | 620 | 603 |
| $12,500 | 2,059 | 2,028 | 1,628 | 1,600 | 1,463 | 1,435 | 1,309 | 1,285 | 1,024 | 1,000 |
| $15,000 | 2,630 | 2,590 | 2,095 | 2,062 | 1,930 | 1,897 | 1,765 | 1,732 | 1,435 | 1,402 |
| $17,500 | 3,249 | 3,196 | 2,604 | 2,560 | 2,416 | 2,373 | 2,233 | 2,194 | 1,903 | 1,864 |
| $20,000 | 3,915 | 3,847 | 3,135 | 3,085 | 2,948 | 2,898 | 2,760 | 2,710 | 2,385 | 2,335 |
| $25,000 | 5,420 | 5,325 | 4,310 | 4,240 | 4,100 | 4,030 | 3,890 | 3,820 | 3,470 | 3,400 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 5c.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER AN 18-PERCENT PERCENTAGE STANDARD DEDUCTION AND A $3,000 MAXIMUM STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| Adjusted gross income | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $138 | [1] $28 | [1] $28 | | | | | | |
| $5,000 | [1] 491 | [1] 491 | [1] 322 | [1] 322 | [1] $208 | [1] $208 | [1] $98 | [1] $98 | | |
| $6,000 | [1] 681 | [1] 681 | [1] 484 | [1] 484 | [1] 362 | [1] 362 | [1] 245 | [1] 245 | [1] $28 | [1] $28 |
| $8,000 | [1] 1,100 | [1] 1,070 | [1] 848 | [1] 821 | [1] 706 | [1] 679 | [1] 569 | [1] 545 | [1] 322 | [1] 300 |
| $10,000 | 1,530 | 1,458 | 1,190 | 1,133 | 1,048 | 991 | 905 | 848 | 620 | 569 |
| $12,500 | 2,059 | 1,965 | 1,628 | 1,545 | 1,463 | 1,383 | 1,309 | 1,238 | 1,024 | 953 |
| $15,000 | 2,630 | 2,509 | 2,095 | 1,996 | 1,930 | 1,831 | 1,765 | 1,666 | 1,435 | 1,342 |
| $17,500 | 3,249 | 3,138 | 2,604 | 2,510 | 2,416 | 2,323 | 2,233 | 2,150 | 1,903 | 1,820 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,948 | 2,760 | 2,760 | 2,385 | 2,385 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 5d.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER AN 18-PERCENT PERCENTAGE STANDARD DEDUCTION AND A $5,000 MAXIMUM STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| Adjusted gross income | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| | Under present law | Under the alternative | Under present law | Under the alternative | Under present aw | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $138 | [1] $28 | [1] $28 | | | | | | |
| $5,000 | [1] 491 | [1] 491 | [1] 322 | [1] 322 | [1] $208 | [1] $208 | [1] $98 | [1] $98 | | |
| $6,000 | [1] 681 | [1] 681 | [1] 484 | [1] 484 | [1] 362 | [1] 362 | [1] 245 | [1] 245 | [1] $28 | [1] $28 |
| $8,000 | [1] 1,100 | [1] 1,070 | [1] 848 | [1] 821 | [1] 706 | [1] 679 | [1] 569 | [1] 545 | [1] 322 | [1] 300 |
| $10,000 | 1,530 | 1,458 | 1,190 | 1,133 | 1,048 | 991 | 905 | 848 | 620 | 569 |
| $12,500 | 2,059 | 1,965 | 1,628 | 1,545 | 1,463 | 1,380 | 1,309 | 1,238 | 1,024 | 953 |
| $15,000 | 2,630 | 2,509 | 2,095 | 1,996 | 1,930 | 1,831 | 1,765 | 1,666 | 1,435 | 1,342 |
| $17,500 | 3,249 | 3,094 | 2,604 | 2,473 | 2,416 | 2,285 | 2,233 | 2,117 | 1,903 | 1,787 |
| $20,000 | 3,915 | 3,722 | 3,135 | 2,985 | 2,948 | 2,798 | 2,760 | 2,610 | 2,385 | 2,238 |
| $25,000 | 5,420 | 5,140 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,680 | 3,470 | 3,260 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 5e.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A 20-PERCENT PERCENTAGE STANDARD DEDUCTION AND A $3,000 MAXIMUM STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $138 | [1] $28 | [1] $28 | | | | | | |
| $5,000 | [1] 491 | [1] 491 | [1] 322 | [1] 322 | [1] $208 | [1] $208 | [1] $98 | [1] $98 | | |
| $6,000 | [1] 681 | [1] 681 | [1] 484 | [1] 484 | [1] 362 | [1] 362 | [1] 245 | [1] 245 | [1] $28 | [1] $28 |
| $8,000 | [1] 1,100 | [1] 1,037 | [1] 848 | [1] 791 | [1] 706 | [1] 649 | [1] 569 | [1] 518 | [1] 322 | [1] 275 |
| $10,000 | 1,530 | 1,410 | 1,190 | 1,095 | 1,048 | 953 | 905 | 810 | 620 | 535 |
| $12,500 | 2,059 | 1,903 | 1,628 | 1,490 | 1,463 | 1,333 | 1,309 | 1,190 | 1,024 | 905 |
| $15,000 | 2,630 | 2,428 | 2,095 | 1,930 | 1,930 | 1,765 | 1,765 | 1,600 | 1,435 | 1,285 |
| $17,500 | 3,249 | 3,138 | 2,604 | 2,510 | 2,416 | 2,323 | 2,233 | 2,150 | 1,903 | 1,820 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,948 | 2,760 | 2,760 | 2,385 | 2,385 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 5f.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A 20-PERCENT PERCENTAGE STANDARD DEDUCTION AND A $5,000 MAXIMUM STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $138 | [1] $28 | [1] $28 | | | | | | |
| $5,000 | [1] 491 | [1] 491 | [1] 322 | [1] 322 | [1] $208 | [1] $208 | [1] $98 | [1] $98 | | |
| $6,000 | [1] 681 | [1] 681 | [1] 484 | [1] 484 | [1] 362 | [1] 362 | [1] 245 | [1] 245 | [1] $28 | [1] $28 |
| $8,000 | [1] 1,100 | [1] 1,037 | [1] 848 | [1] 791 | [1] 706 | [1] 649 | [1] 569 | [1] 518 | [1] 322 | [1] 275 |
| $10,000 | 1,530 | 1,410 | 1,190 | 1,095 | 1,048 | 953 | 905 | 810 | 620 | 535 |
| $12,500 | 2,059 | 1,903 | 1,628 | 1,490 | 1,463 | 1,333 | 1,309 | 1,190 | 1,024 | 905 |
| $15,000 | 2,630 | 2,428 | 2,095 | 1,930 | 1,930 | 1,765 | 1,765 | 1,600 | 1,435 | 1,285 |
| $17,500 | 3,249 | 2,993 | 2,604 | 2,385 | 2,416 | 2,205 | 2,233 | 2,040 | 1,903 | 1,710 |
| $20,000 | 3,915 | 3,598 | 3,135 | 2,885 | 2,948 | 2,698 | 2,760 | 2,510 | 2,385 | 2,150 |
| $25,000 | 5,420 | 4,960 | 4,310 | 3,960 | 4,100 | 3,750 | 3,890 | 3,540 | 3,470 | 3,135 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 5g.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $1,500 MINIMUM STANDARD DEDUCTION, A 20-PERCENT PERCENTAGE STANDARD DEDUCTION, AND A $2,500 MAXIMUM STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| Adjusted gross income | Tax liability: Single person, Under present law | Single person, Under the alternative | Married couple with no dependents, Under present law | Married couple with no dependents, Under the alternative | Married couple with 1 dependent, Under present law | Married couple with 1 dependent, Under the alternative | Married couple with 2 dependents, Under present law | Married couple with 2 dependents, Under the alternative | Married couple with 4 dependents, Under present law | Married couple with 4 dependents, Under the alternative |
|---|---|---|---|---|---|---|---|---|---|---|
| $3,000 | [1] $138 | [1] $108 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 453 | [1] 322 | [1] $290 | [1] $208 | [1] $178 | [1] $98 | [1] $70 | | |
| $6,000 | [1] 681 | [1] 643 | [1] 484 | [1] 450 | [1] 362 | [1] 330 | [1] 245 | [1] 215 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,037 | [1] 848 | [1] 791 | [1] 706 | [1] 649 | [1] 569 | [1] 518 | [1] 322 | [1] $275 |
| $10,000 | 1,530 | 1,410 | 1,190 | 1,095 | 1,048 | 953 | 905 | 810 | 620 | 535 |
| $12,500 | 2,059 | 1,903 | 1,628 | 1,490 | 1,463 | 1,333 | 1,309 | 1,190 | 1,024 | 905 |
| $15,000 | 2,630 | 2,563 | 2,095 | 2,040 | 1,930 | 1,875 | 1,765 | 1,710 | 1,435 | 1,380 |
| $17,500 | 3,249 | 3,249 | 2,604 | 2,604 | 2,416 | 2,416 | 2,233 | 2,233 | 1,903 | 1,903 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,948 | 2,760 | 2,760 | 2,385 | 2,385 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 5h.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $1,600 MINIMUM STANDARD DEDUCTION AND A 20-PERCENT PERCENTAGE STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| Adjusted gross income | Tax liability: Single person, Under present law | Single person, Under the alternative | Married couple with no dependents, Under present law | Married couple with no dependents, Under the alternative | Married couple with 1 dependent, Under present law | Married couple with 1 dependent, Under the alternative | Married couple with 2 dependents, Under present law | Married couple with 2 dependents, Under the alternative | Married couple with 4 dependents, Under present law | Married couple with 4 dependents, Under the alternative |
|---|---|---|---|---|---|---|---|---|---|---|
| $3,000 | [1] $138 | [1] $93 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 434 | [1] 322 | [1] $275 | [1] $208 | [1] $163 | [1] $98 | [1] $56 | | |
| $6,000 | [1] 681 | [1] 624 | [1] 484 | [1] 434 | [1] 362 | [1] 314 | [1] 245 | [1] 200 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,037 | [1] 848 | [1] 791 | [1] 706 | [1] 649 | [1] 569 | [1] 518 | [1] 322 | [1] $275 |
| $10,000 | 1,530 | 1,410 | 1,190 | 1,095 | 1,048 | 953 | 905 | 810 | 620 | 535 |
| $12,500 | 2,059 | 2,028 | 1,628 | 1,600 | 1,463 | 1,435 | 1,309 | 1,285 | 1,024 | 1,000 |
| $15,000 | 2,630 | 2,630 | 2,095 | 2,095 | 1,930 | 1,930 | 1,765 | 1,765 | 1,435 | 1,435 |
| $17,500 | 3,249 | 3,249 | 2,604 | 2,604 | 2,416 | 2,416 | 2,233 | 2,233 | 1,903 | 1,903 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,948 | 2,760 | 2,760 | 2,385 | 2,385 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 5I.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $1,600 MINIMUM STANDARD DEDUCTION, A 20-PERCENT PERCENTAGE STANDARD DEDUCTION, AND A $2,500 MAXIMUM STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| Adjusted gross income | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $93 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 434 | [1] 322 | [1] $275 | [1] $208 | [1] $163 | [1] $98 | [1] $56 | | |
| $6,000 | [1] 681 | [1] 624 | [1] 484 | [1] 434 | [1] 362 | [1] 314 | [1] 245 | [1] 200 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,037 | [1] 848 | [1] 791 | [1] 706 | [1] 649 | [1] 569 | [1] 518 | [1] 322 | [1] $275 |
| $10,000 | 1,530 | 1,410 | 1,190 | 1,095 | 1,048 | 953 | 905 | 810 | 620 | 535 |
| $12,500 | 2,059 | 1,903 | 1,628 | 1,490 | 1,463 | 1,333 | 1,309 | 1,190 | 1,024 | 905 |
| $15,000 | 2,630 | 2,563 | 2,095 | 2,040 | 1,930 | 1,875 | 1,765 | 1,710 | 1,435 | 1,380 |
| $17,500 | 3,249 | 3,249 | 2,604 | 2,604 | 2,416 | 2,416 | 2,233 | 2,233 | 1,903 | 1,903 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,948 | 2,760 | 2,760 | 2,385 | 2,385 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 5J.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $1,600 MINIMUM STANDARD DEDUCTION, A 20-PERCENT PERCENTAGE STANDARD DEDUCTION, AND A $3,000 MAXIMUM STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| Adjusted gross income | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $93 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 434 | [1] 322 | [1] $275 | [1] $208 | [1] $163 | [1] $98 | [1] $56 | | |
| $6,000 | [1] 681 | [1] 624 | [1] 484 | [1] 434 | [1] 362 | [1] 314 | [1] 245 | [1] 200 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,037 | [1] 848 | [1] 791 | [1] 706 | [1] 649 | [1] 569 | [1] 518 | [1] 322 | [1] $275 |
| $10,000 | 1,530 | 1,410 | 1,190 | 1,095 | 1,048 | 953 | 905 | 810 | 620 | 535 |
| $12,500 | 2,059 | 1,903 | 1,628 | 1,490 | 1,463 | 1,333 | 1,309 | 1,190 | 1,024 | 905 |
| $15,000 | 2,630 | 2,428 | 2,095 | 1,930 | 1,930 | 1,765 | 1,765 | 1,600 | 1,435 | 1,285 |
| $17,500 | 3,249 | 3,138 | 2,604 | 2,510 | 2,416 | 2,323 | 2,233 | 2,150 | 1,903 | 1,820 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,948 | 2,760 | 2,760 | 2,385 | 2,385 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 5k.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER AN $1,800 MINIMUM STANDARD DEDUCTION, A 20-PERCENT PERCENTAGE STANDARD DEDUCTION, AND A $2,200 MAXIMUM STANDARD DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $63 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 396 | [1] 322 | [1] $245 | [1] $208 | [1] $133 | [1] $98 | [1] $28 | | |
| $6,000 | [1] 681 | [1] 586 | [1] 484 | [1] 402 | [1] 362 | [1] 283 | [1] 245 | [1] 170 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 995 | [1] 848 | [1] 753 | [1] 706 | [1] 612 | [1] 569 | [1] 484 | [1] 322 | [1] $245 |
| $10,000 | 1,530 | 1,410 | 1,190 | 1,095 | 1,048 | 953 | 905 | 810 | 620 | 535 |
| $12,500 | 2,059 | 1,978 | 1,628 | 1,556 | 1,463 | 1,391 | 1,309 | 1,247 | 1,024 | 962 |
| $15,000 | 2,630 | 2,630 | 2,095 | 2,095 | 1,930 | 1,930 | 1,765 | 1,765 | 1,435 | 1,435 |
| $17,500 | 3,249 | 3,249 | 2,604 | 2,604 | 2,416 | 2,416 | 2,233 | 2,233 | 1,903 | 1,903 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,948 | 2,760 | 2,760 | 2,385 | 2,385 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

# DISTRIBUTIONAL TABLES

## On Liberalizing the PERSONAL EXEMPTION DEDUCTION

Showing the Number of Returns Affected and the Change in Tax Liability, BY ADJUSTED GROSS INCOME CLASS, Under Present Law and Under 8 Alternatives

TABLE 6A.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE PERSONAL EXEMPTION DEDUCTION FROM $750 TO $780, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| | Number of returns affected (thousands) | | |
|---|---|---|---|
| Adjusted gross income class (thousands) | Total number with tax decrease | Number made nontaxable | Decrease in tax liability (millions) |
| 0 to $3 | 3,221 | 138 | $14 |
| $3 to $5 | 7,746 | 234 | 59 |
| $5 to $7 | 8,737 | 113 | 96 |
| $7 to $10 | 12,229 | 33 | 187 |
| $10 to $15 | 15,595 | 6 | 320 |
| $15 to $20 | 7,557 | 2 | 188 |
| $20 to $50 | 5,305 | (1) | 176 |
| $50 to $100 | 449 | (1) | 26 |
| $100 and over | 102 | (1) | 7 |
| Total | 60,940 | 526 | 1,073 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 6B.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE PERSONAL EXEMPTION DEDUCTION FROM $750 TO $800, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| | Number of returns affected (thousands) | | |
|---|---|---|---|
| Adjusted gross income class (thousands) | Total number with tax decrease | Number made nontaxable | Decrease in tax liability (millions) |
| 0 to $3 | 3,221 | 232 | $24 |
| $3 to $5 | 7,746 | 317 | 96 |
| $5 to $7 | 8,737 | 187 | 159 |
| $7 to $10 | 12,229 | 35 | 311 |
| $10 to $15 | 15,595 | 6 | 532 |
| $15 to $20 | 7,557 | 2 | 313 |
| $20 to $50 | 5,305 | (1) | 292 |
| $50 to $100 | 449 | (1) | 44 |
| $100 and over | 102 | (1) | 11 |
| Total | 60,940 | 778 | 1,782 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 6C.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE PERSONAL EXEMPTION DEDUCTION FROM $750 TO $810,[1] BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands) | | Decrease in tax liability (millions) |
|---|---|---|---|
| | Total number with tax decrease | Number made nontaxable | |
| 0 to $3 | 3,221 | 278 | $28 |
| $3 to $5 | 7,746 | 383 | 114 |
| $5 to $7 | 8,737 | 199 | 189 |
| $7 to $10 | 12,229 | 59 | 373 |
| $10 to $15 | 15,595 | 14 | 638 |
| $15 to $20 | 7,557 | 2 | 375 |
| $20 to $50 | 5,305 | (2) | 350 |
| $50 to $100 | 449 | (2) | 53 |
| $100 and over | 102 | (2) | 13 |
| Total | 60,940 | 936 | 2,134 |

[1] The present law $750 personal exemption deduction increased by 8 percent.
[2] Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 6D.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE PERSONAL EXEMPTION DEDUCTION FROM $750 TO $850,[1] BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands) | | Decrease in tax liability (millions) |
|---|---|---|---|
| | Total number with tax decrease | Number made nontaxable | |
| 0 to $3 | 3,221 | 501 | $44 |
| $3 to $5 | 7,746 | 444 | 171 |
| $5 to $7 | 8,737 | 326 | 287 |
| $7 to $10 | 12,229 | 115 | 594 |
| $10 to $15 | 15,595 | 14 | 1,043 |
| $15 to $20 | 7,557 | 4 | 613 |
| $20 to $50 | 5,305 | (2) | 565 |
| $50 to $100 | 449 | (2) | 83 |
| $100 and over | 102 | (2) | 20 |
| Total | 60,940 | 1,404 | 3,419 |

[1] With the extra personal exemption deduction for age or blindness remaining at $750.
[2] Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 6E.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE PERSONAL EXEMPTION DEDUCTION FROM $750 TO $850, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number of returns affected (thousands): Number made nontaxable | Decrease in tax liability (millions) |
|---|---|---|---|
| 0 to $3 | 3,221 | 533 | $45 |
| $3 to $5 | 7,746 | 557 | 184 |
| $5 to $7 | 8,737 | 353 | 310 |
| $7 to $10 | 12,229 | 130 | 616 |
| $10 to $15 | 15,595 | 14 | 1,059 |
| $15 to $20 | 7,557 | 4 | 624 |
| $20 to $50 | 5,305 | (1) | 582 |
| $50 to $100 | 449 | (1) | 88 |
| $100 and over | 102 | (1) | 22 |
| Total | 60,940 | 1,592 | 3,531 |

[1] Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 6F.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE PERSONAL EXEMPTION DEDUCTION FROM $750 TO $900, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number of returns affected (thousands): Number made nontaxable | Decrease in tax liability (millions) |
|---|---|---|---|
| 0 to $3 | 3,221 | 812 | $63 |
| $3 to $5 | 7,746 | 762 | 268 |
| $5 to $7 | 8,737 | 523 | 454 |
| $7 to $10 | 12,229 | 204 | 915 |
| $10 to $15 | 15,595 | 30 | 1,582 |
| $15 to $20 | 7,557 | 5 | 932 |
| $20 to $50 | 5,305 | 2 | 871 |
| $50 to $100 | 449 | (1) | 132 |
| $100 and over | 102 | (1) | 33 |
| Total | 60,940 | 2,337 | 5,251 |

[1] Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.



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TABLE 6G.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE PERSONAL EXEMPTION DEDUCTION FROM $750 TO $1,000, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands) | | Decrease in tax liability (millions) |
| --- | --- | --- | --- |
| | Total number with tax decrease | Number made nontaxable | |
| 0 to $3 | 3,221 | 1,221 | $96 |
| $3 to $5 | 7,746 | 1,200 | 421 |
| $5 to $7 | 8,737 | 938 | 719 |
| $7 to $10 | 12,229 | 452 | 1,489 |
| $10 to $15 | 15,595 | 83 | 2,611 |
| $15 to $20 | 7,557 | 5 | 1,542 |
| $20 to $50 | 5,305 | 2 | 1,442 |
| $50 to $100 | 449 | (1) | 220 |
| $100 and over | 102 | (1) | 56 |
| Total | 60,940 | 3,902 | 8,595 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 6H.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE PERSONAL EXEMPTION DEDUCTION FROM $750 TO $1,500, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands) | | Decrease in tax liability (millions) |
| --- | --- | --- | --- |
| | Total number with tax decrease | Number made nontaxable | |
| 0 to $3 | 3,221 | 2,584 | $189 |
| $3 to $5 | 7,746 | 2,737 | 968 |
| $5 to $7 | 8,737 | 2,612 | 1,735 |
| $7 to $10 | 12,229 | 2,245 | 3,877 |
| $10 to $15 | 15,595 | 1,023 | 7,304 |
| $15 to $20 | 7,557 | 91 | 4,430 |
| $20 to $50 | 5,305 | 13 | 4,186 |
| $50 to $100 | 449 | (1) | 654 |
| $100 and over | 102 | (1) | 167 |
| Total | 60,940 | 11,305 | 23,510 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

# TAX BURDEN TABLES

## On Liberalizing the PERSONAL EXEMPTION DEDUCTION

### Showing the TAX BURDEN by Marital Status and Number of Dependents, for Selected Income Levels, Under Present Law and Under 8 Alternatives

TABLE 6a.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $780 PERSONAL EXEMPTION DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $133 | [1] $28 | [1] $20 | | | | | | |
| $5,000 | [1] 491 | [1] 485 | [1] 322 | [1] 312 | [1] $208 | [1] $194 | [1] $98 | [1] $81 | | |
| $6,000 | [1] 681 | [1] 675 | [1] 484 | [1] 474 | [1] 362 | [1] 348 | [1] 245 | [1] 227 | [1] $28 | [1] $3 |
| $8,000 | [1] 1,100 | [1] 1,093 | [1] 848 | [1] 837 | [1] 706 | [1] 688 | [1] 569 | [1] 549 | [1] 322 | [1] 293 |
| $10,000 | 1,530 | 1,523 | 1,190 | 1,179 | 1,048 | 1,030 | 905 | 882 | 620 | 589 |
| $12,500 | 2,059 | 2,051 | 1,628 | 1,614 | 1,463 | 1,443 | 1,309 | 1,286 | 1,024 | 990 |
| $15,000 | 2,630 | 2,622 | 2,095 | 2,082 | 1,930 | 1,910 | 1,765 | 1,739 | 1,435 | 1,395 |
| $17,500 | 3,249 | 3,239 | 2,604 | 2,589 | 2,416 | 2,394 | 2,233 | 2,206 | 1,903 | 1,863 |
| $20,000 | 3,915 | 3,905 | 3,135 | 3,120 | 2,948 | 2,925 | 2,760 | 2,730 | 2,385 | 2,340 |
| $25,000 | 5,420 | 5,409 | 4,310 | 4,293 | 4,100 | 4,075 | 3,890 | 3,856 | 3,470 | 3,420 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 6b.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER AN $800 PERSONAL EXEMPTION DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $130 | [1] $28 | [1] $14 | | | | | | |
| $5,000 | [1] 491 | [1] 481 | [1] 322 | [1] 306 | [1] $208 | [1] $185 | [1] $98 | [1] $70 | | |
| $6,000 | [1] 681 | [1] 671 | [1] 484 | [1] 467 | [1] 362 | [1] 338 | [1] 245 | [1] 215 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,089 | [1] 848 | [1] 829 | [1] 706 | [1] 677 | [1] 569 | [1] 535 | [1] 322 | [1] $275 |
| $10,000 | 1,530 | 1,518 | 1,190 | 1,171 | 1,048 | 1,019 | 905 | 867 | 620 | 569 |
| $12,500 | 2,059 | 2,046 | 1,628 | 1,606 | 1,463 | 1,430 | 1,309 | 1,271 | 1,024 | 967 |
| $15,000 | 2,630 | 2,617 | 2,095 | 2,073 | 1,930 | 1,897 | 1,765 | 1,721 | 1,435 | 1,371 |
| $17,500 | 3,249 | 3,233 | 2,604 | 2,579 | 2,416 | 2,379 | 2,233 | 2,189 | 1,903 | 1,837 |
| $20,000 | 3,915 | 3,898 | 3,135 | 3,110 | 2,948 | 2,910 | 2,760 | 2,710 | 2,385 | 2,310 |
| $25,000 | 5,420 | 5,401 | 4,310 | 4,282 | 4,100 | 4,058 | 3,890 | 3,834 | 3,470 | 3,386 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 6c.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER AN $810 PERSONAL EXEMPTION DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| Adjusted gross income | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $129 | [1] $28 | [1] $11 | | | | | | |
| $5,000 | [1] 491 | [1] 479 | [1] 322 | [1] 303 | [1] $208 | [1] $181 | [1] $98 | [1] $64 | | |
| $6,000 | [1] 681 | [1] 669 | [1] 484 | [1] 464 | [1] 362 | [1] 333 | [1] 245 | [1] 209 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,087 | [1] 848 | [1] 825 | [1] 706 | [1] 671 | [1] 569 | [1] 528 | [1] 322 | [1] $266 |
| $10,000 | 1,530 | 1,516 | 1,190 | 1,167 | 1,048 | 1,013 | 905 | 859 | 620 | 559 |
| $12,500 | 2,059 | 2,044 | 1,628 | 1,601 | 1,463 | 1,423 | 1,309 | 1,263 | 1,024 | 955 |
| $15,000 | 2,630 | 2,614 | 2,095 | 2,069 | 1,930 | 1,890 | 1,765 | 1,712 | 1,435 | 1,359 |
| $17,500 | 3,249 | 3,230 | 2,604 | 2,574 | 2,416 | 2,371 | 2,233 | 2,180 | 1,903 | 1,823 |
| $20,000 | 3,915 | 3,895 | 3,135 | 3,105 | 2,948 | 2,903 | 2,760 | 2,700 | 2,385 | 2,295 |
| $25,000 | 5,420 | 5,397 | 4,310 | 4,276 | 4,100 | 4,050 | 3,890 | 3,823 | 3,470 | 3,369 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLES 6d AND 6e.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER AN $850 PERSONAL EXEMPTION DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| Adjusted gross income | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| | Under present law | Under the alternatives | Under present law | Under the alternatives | Under present law | Under the alternatives | Under present law | Under the alternatives | Under present law | Under the alternatives |
| $3,000 | [1] $138 | [1] $123 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 472 | [1] 322 | [1] $290 | [1] $208 | [1] $163 | [1] $98 | [1] $42 | | |
| $6,000 | [1] 681 | [1] 662 | [1] 484 | [1] 450 | [1] 362 | [1] 314 | [1] 245 | [1] 185 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,079 | [1] 848 | [1] 810 | [1] 706 | [1] 649 | [1] 569 | [1] 501 | [1] 322 | [1] $230 |
| $10,000 | 1,530 | 1,506 | 1,190 | 1,152 | 1,048 | 991 | 905 | 829 | 620 | 518 |
| $12,500 | 2,059 | 2,034 | 1,628 | 1,584 | 1,463 | 1,397 | 1,309 | 1,233 | 1,024 | 910 |
| $15,000 | 2,630 | 2,603 | 2,095 | 2,051 | 1,930 | 1,864 | 1,765 | 1,677 | 1,435 | 1,314 |
| $17,500 | 3,249 | 3,218 | 2,604 | 2,554 | 2,416 | 2,341 | 2,233 | 2,145 | 1,903 | 1,771 |
| $20,000 | 3,915 | 3,881 | 3,135 | 3,085 | 2,948 | 2,873 | 2,760 | 2,660 | 2,385 | 2,238 |
| $25,000 | 5,420 | 5,382 | 4,310 | 4,254 | 4,100 | 4,016 | 3,890 | 3,778 | 3,470 | 3,302 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 6f.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $900 PERSONAL EXEMPTION DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $115 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 462 | [1] 322 | [1] $275 | [1] $208 | [1] $140 | [1] $98 | [1] $14 | | |
| $6,000 | [1] 681 | [1] 652 | [1] 484 | [1] 434 | [1] 362 | [1] 290 | [1] 245 | [1] 155 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,068 | [1] 848 | [1] 791 | [1] 706 | [1] 620 | [1] 569 | [1] 467 | [1] 322 | [1] $165 |
| $10,000 | 1,530 | 1,494 | 1,190 | 1,133 | 1,048 | 962 | 905 | 791 | 620 | 467 |
| $12,500 | 2,059 | 2,021 | 1,628 | 1,562 | 1,463 | 1,366 | 1,309 | 1,195 | 1,024 | 853 |
| $15,000 | 2,630 | 2,590 | 2,095 | 2,029 | 1,930 | 1,831 | 1,765 | 1,633 | 1,435 | 1,257 |
| $17,500 | 3,249 | 3,203 | 2,604 | 2,529 | 2,416 | 2,304 | 2,233 | 2,101 | 1,903 | 1,705 |
| $20,000 | 3,915 | 3,864 | 3,135 | 3,060 | 2,948 | 2,835 | 2,760 | 2,610 | 2,385 | 2,172 |
| $25,000 | 5,420 | 5,363 | 4,310 | 4,226 | 4,100 | 3,974 | 3,890 | 3,722 | 3,470 | 3,223 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 6g.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $1,000 PERSONAL EXEMPTION DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $100 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 443 | [1] 322 | [1] $245 | [1] $208 | [1] $98 | [1] $98 | | | |
| $6,000 | [1] 681 | [1] 633 | [1] 484 | [1] 402 | [1] 362 | [1] 245 | [1] 245 | [1] $98 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,047 | [1] 848 | [1] 753 | [1] 706 | [1] 569 | [1] 569 | [1] 402 | [1] 322 | [1] $98 |
| $10,000 | 1,530 | 1,470 | 1,190 | 1,095 | 1,048 | 905 | 905 | 715 | 620 | 370 |
| $12,500 | 2,059 | 1,996 | 1,628 | 1,518 | 1,463 | 1,309 | 1,309 | 1,119 | 1,024 | 739 |
| $15,000 | 2,630 | 2,563 | 2,095 | 1,985 | 1,930 | 1,765 | 1,765 | 1,545 | 1,435 | 1,143 |
| $17,500 | 3,249 | 3,174 | 2,604 | 2,479 | 2,416 | 2,233 | 2,233 | 2,013 | 1,903 | 1,573 |
| $20,000 | 3,915 | 3,830 | 3,135 | 3,010 | 2,948 | 2,760 | 2,760 | 2,510 | 2,385 | 2,040 |
| $25,000 | 5,420 | 5,325 | 4,310 | 4,170 | 4,100 | 3,890 | 3,890 | 3,610 | 3,470 | 3,073 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 6h.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $1,500 PERSONAL EXEMPTION DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $28 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 348 | [1] 322 | [1] $98 | [1] $208 | | [1] $98 | | | |
| $6,000 | [1] 681 | [1] 538 | [1] 481 | [1] 245 | [1] 362 | [1] $28 | [1] 245 | | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 942 | [1] 848 | [1] 569 | [1] 706 | [1] 322 | [1] 569 | [1] $98 | [1] 322 | |
| $10,000 | 1,530 | 1,350 | 1,190 | 905 | 1,048 | 620 | 905 | 370 | 620 | |
| $12,500 | 2,059 | 1,871 | 1,628 | 1,309 | 1,463 | 1,024 | 1,309 | 739 | 1,024 | $234 |
| $15,000 | 2,630 | 2,428 | 2,095 | 1,765 | 1,930 | 1,435 | 1,765 | 1,143 | 1,435 | 578 |
| $17,500 | 3,249 | 3,029 | 2,604 | 2,233 | 2,416 | 1,903 | 2,233 | 1,573 | 1,903 | 976 |
| $20,000 | 3,915 | 3,675 | 3,135 | 2,760 | 2,948 | 2,385 | 2,760 | 2,040 | 2,385 | 1,380 |
| $25,000 | 5,405 | 5,140 | 4,310 | 3,890 | 4,100 | 3,470 | 3,890 | 3,073 | 3,470 | 2,323 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

# DISTRIBUTIONAL TABLES

## On Providing a TAX CREDIT in Lieu of, or in Combination with, The PERSONAL EXEMPTION DEDUCTION

### Showing the Number of Returns Affected and the Change in Tax Liability, BY ADJUSTED GROSS INCOME CLASS, Under Present Law and Under 12 Alternatives

TABLE 7A.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM GRANTING A $150 NONREFUNDABLE OPTIONAL TAX CREDIT IN LIEU OF THE $750 PERSONAL EXEMPTION DEDUCTION, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands) | | Decrease in tax liability (millions) |
|---|---|---|---|
| | Total number with tax decrease | Number made nontaxable | |
| 0 to $3 | 3,221 | 1,265 | $91 |
| $3 to $5 | 7,746 | 1,144 | 237 |
| $5 to $7 | 6,667 | 720 | 284 |
| $7 to $10 | 8,294 | 199 | 304 |
| $10 to $15 | 3,526 | 28 | 89 |
| $15 to $20 | 63 | 4 | 3 |
| $20 to $50 | 10 | 2 | 1 |
| $50 to $100 | (1) | (1) | (1) |
| $100 and over | (1) | (1) | (1) |
| Total | 29,507 | 3,361 | 1,008 |

1 Less than 500 returns or $500,000.

Note: Details will not necessarily add to totals because of rounding.

TABLE 7B.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM GRANTING A $165 NONREFUNDABLE OPTIONAL TAX CREDIT IN LIEU OF THE $750 PERSONAL EXEMPTION DEDUCTION, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands) | | Decrease in tax liability (millions) |
|---|---|---|---|
| | Total number with tax decrease | Number made nontaxable | |
| 0 to $3 | 3,221 | 1,537 | $119 |
| $3 to $5 | 7,746 | 1,549 | 370 |
| $5 to $7 | 8,618 | 1,058 | 500 |
| $7 to $10 | 9,566 | 431 | 731 |
| $10 to $15 | 9,061 | 59 | 503 |
| $15 to $20 | 519 | 7 | 22 |
| $20 to $50 | 23 | 2 | 2 |
| $50 to $100 | 1 | (1) | (1) |
| $100 and over | (1) | (1) | (1) |
| Total | 38,755 | 4,643 | 2,247 |

1 Less than 500 returns or $500,000.

Note: Details will not necessarily add to totals because of rounding.

TABLE 7C.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM GRANTING A $200 NONREFUNDABLE OPTIONAL TAX CREDIT IN LIEU OF THE $750 PERSONAL EXEMPTION DEDUCTION, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number of returns affected (thousands): Number made nontaxable | Decrease in tax liability (millions) |
|---|---|---|---|
| 0 to $3 | 3,221 | 2,172 | $166 |
| $3 to $5 | 7,746 | 2,274 | 626 |
| $5 to $7 | 8,737 | 1,685 | 983 |
| $7 to $10 | 12,229 | 956 | 1,763 |
| $10 to $15 | 15,045 | 210 | 2,281 |
| $15 to $20 | 6,881 | 30 | 599 |
| $20 to $50 | 1,018 | 4 | 51 |
| $50 to $100 | 2 | (1) | (1) |
| $100 and over | (1) | (1) | (1) |
| Total | 54,879 | 7,332 | 6,470 |

1 Less than 500 returns or $500,000.

Note: Details will not necessarily add to totals because of rounding.

TABLE 7D.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM GRANTING A $250 NONREFUNDABLE OPTIONAL TAX CREDIT IN LIEU OF THE $750 PERSONAL EXEMPTION DEDUCTION, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number of returns affected (thousands): Number made nontaxable | Decrease in tax liability (millions) |
|---|---|---|---|
| 0 to $3 | 3,221 | 3,098 | $196 |
| $3 to $5 | 7,746 | 2,910 | 927 |
| $5 to $7 | 8,737 | 2,697 | 1,520 |
| $7 to $10 | 12,229 | 2,164 | 3,097 |
| $10 to $15 | 15,588 | 751 | 4,813 |
| $15 to $20 | 7,475 | 55 | 1,959 |
| $20 to $50 | 3,867 | 9 | 606 |
| $50 to $100 | 4 | (1) | 1 |
| $100 and over | 1 | (1) | (1) |
| Total | 58,869 | 11,685 | 13,120 |

1 Less than 500 returns or $500,000.

Note: Details will not necessarily add to totals because of rounding.

TABLE 7E.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM GRANTING A $300 NONREFUNDABLE OPTIONAL TAX CREDIT IN LIEU OF THE $750 PERSONAL EXEMPTION DEDUCTION, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number of returns affected (thousands): Number made nontaxable | Decrease in tax liability (millions) |
|---|---|---|---|
| 0 to $3 | 3,221 | 3,192 | $198 |
| $3 to $5 | 7,746 | 4,024 | 1,156 |
| $5 to $7 | 8,737 | 3,473 | 1,937 |
| $7 to $10 | 12,229 | 3,264 | 4,151 |
| $10 to $15 | 15,595 | 1,700 | 7,132 |
| $15 to $20 | 7,557 | 147 | 3,315 |
| $20 to $50 | 4,836 | 14 | 1,444 |
| $50 to $100 | 12 | (1) | 2 |
| $100 and over | 1 | (1) | (1) |
| Total | 59,934 | 15,815 | 19,337 |

1 Less than 500 returns or $500,000.

Note: Details will not necessarily add to totals because of rounding.

TABLE 7F.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM GRANTING A $200 NONREFUNDABLE TAX CREDIT OR AN $850 PERSONAL EXEMPTION DEDUCTION AT THE TAXPAYER'S OPTION, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number of returns affected (thousands): Number made nontaxable | Decrease in tax liability (millions) |
|---|---|---|---|
| 0 to $3 | 3,221 | 2,172 | $166 |
| $3 to $5 | 7,746 | 2,274 | 626 |
| $5 to $7 | 8,737 | 1,685 | 983 |
| $7 to $10 | 12,229 | 956 | 1,773 |
| $10 to $15 | 15,595 | 210 | 2,321 |
| $15 to $20 | 7,557 | 30 | 764 |
| $20 to $50 | 5,305 | 4 | 588 |
| $50 to $100 | 449 | (1) | 88 |
| $100 and over | 102 | (1) | 22 |
| Total | 60,940 | 7,332 | 7,332 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 7G.—ESTIMATED DECREASE AND INCREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM GRANTING A $150 NONREFUNDABLE COMPULSORY TAX CREDIT IN LIEU OF THE $750 PERSONAL EXEMPTION DEDUCTION, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Returns with tax decrease | | | Returns with tax increase | | Net change in tax liability (millions) |
|---|---|---|---|---|---|---|
| | Total number with tax decrease (thousands) | Number made nontaxable (thousands) | Decrease in tax liability (millions) | Number of returns (thousands) | Increase in tax liability (millions) | |
| 0 to $3 | 3,221 | 1,265 | $91 | 0 | 0 | −$91 |
| $3 to $5 | 7,746 | 1,144 | 237 | 0 | 0 | −237 |
| $5 to $7 | 6,647 | 720 | 284 | 2,090 | $16 | −268 |
| $7 to $10 | 8,294 | 199 | 304 | 3,935 | 105 | −199 |
| $10 to $15 | 3,526 | 28 | 89 | 12,070 | 483 | 394 |
| $15 to $20 | 63 | 4 | 3 | 7,494 | 811 | 808 |
| $20 to $50 | 10 | 2 | 1 | 5,295 | 1,600 | 1,599 |
| $50 to $100 | (1) | (1) | (1) | 448 | 403 | 403 |
| $100 and over | (1) | (1) | (1) | 102 | 110 | 110 |
| Total | 29,507 | 3,361 | 1,008 | 31,435 | 3,529 | 2,520 |

1 Less than 500 returns or $500,000.

Note: Detail will not necessarily add to totals because of rounding.

TABLE 7H.—ESTIMATED DECREASE AND INCREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM GRANTING A $165 NONREFUNDABLE COMPULSORY TAX CREDIT IN LIEU OF THE $750 PERSONAL EXEMPTION DEDUCTION, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Returns with tax decrease | | | Returns with tax increase | | Net change in tax liability (millions) |
|---|---|---|---|---|---|---|
| | Total number with tax decrease (thousands) | Number made nontaxable (thousands) | Decrease in tax liability (millions) | Number of returns (thousands) | Increase in tax liability (millions) | |
| 0 to $3 | 3,221 | 1,537 | $119 | 0 | 0 | −$119 |
| $3 to $5 | 7,746 | 1,549 | 370 | 0 | 0 | −370 |
| $5 to $7 | 8,618 | 1,058 | 500 | 0 | 0 | −500 |
| $7 to $10 | 9,566 | 431 | 731 | 2,572 | $39 | −692 |
| $10 to $15 | 9,061 | 59 | 503 | 3,159 | 91 | −412 |
| $15 to $20 | 519 | 7 | 22 | 6,710 | 413 | 391 |
| $20 to $50 | 23 | 2 | 2 | 5,276 | 1,300 | 1,298 |
| $50 to $100 | 1 | (1) | (1) | 448 | 376 | 376 |
| $100 and over | (1) | (1) | (1) | 102 | 105 | 105 |
| Total | 38,755 | 4,643 | 2,247 | 18,267 | 2,325 | 78 |

1 Less than 500 returns or $500,000.

Note: Details will not necessarily add to totals because of rounding.

TABLE 7I.—ESTIMATED DECREASE AND INCREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM GRANTING A $200 NONREFUNDABLE COMPULSORY TAX CREDIT IN LIEU OF THE $750 PERSONAL EXEMPTION DEDUCTION, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| | Returns with tax decrease | | | Returns with tax increase | | |
|---|---|---|---|---|---|---|
| Adjusted gross income class (thousands) | Total number with tax decrease (thousands) | Number made nontaxable (thousands) | Decrease in tax liability (millions) | Number of returns (thousands) | Increase in tax liability (millions) | Net change in tax liability (millions) |
| 0 to $3 | 3,221 | 2,172 | $166 | 0 | 0 | −$166 |
| $3 to $5 | 7,746 | 2,274 | 626 | 0 | 0 | −626 |
| $5 to $7 | 8,737 | 1,685 | 983 | 0 | 0 | −983 |
| $7 to $10 | 12,229 | 956 | 1,763 | [1] | [1] | −1,763 |
| $10 to $15 | 15,045 | 210 | 2,281 | 549 | $8 | −2,273 |
| $15 to $20 | 6,881 | 30 | 599 | 676 | 20 | −579 |
| $20 to $50 | 1,018 | 4 | 51 | 4,288 | 649 | 598 |
| $50 to $100 | 2 | [1] | [1] | 447 | 314 | 314 |
| $100 and over | [1] | [1] | [1] | 102 | 91 | 91 |
| Total | 54,879 | 7,332 | 6,470 | 6,062 | 1,082 | −5,388 |

[1] Less than 500 returns or $500,000.

Note: Details will not necessarily add to totals because of rounding.

TABLE 7J.—ESTIMATED DECREASE AND INCREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM GRANTING A $250 NONREFUNDABLE COMPULSORY TAX CREDIT IN LIEU OF THE $750 PERSONAL EXEMPTION DEDUCTION, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| | Returns with tax decrease | | | Returns with tax increase | | |
|---|---|---|---|---|---|---|
| Adjusted gross income class (thousands) | Total number with tax decrease (thousands) | Number made nontaxable (thousands) | Decrease in tax liability (millions) | Number of returns (thousands) | Increase in tax liability (millions) | Net change in tax liability (millions) |
| 0 to $3 | 3,221 | 3,098 | $196 | 0 | 0 | −$196 |
| $3 to $5 | 7,746 | 2,910 | 927 | 0 | 0 | −927 |
| $5 to $7 | 8,737 | 2,697 | 1,520 | 0 | 0 | −1,520 |
| $7 to $10 | 12,229 | 2,164 | 3,097 | 0 | 0 | −3,097 |
| $10 to $15 | 15,588 | 751 | 4,813 | 7 | [1] | −4,813 |
| $15 to $20 | 7,475 | 55 | 1,959 | 82 | $2 | −1,957 |
| $20 to $50 | 3,867 | 9 | 606 | 1,437 | 204 | −402 |
| $50 to $100 | 4 | [1] | 1 | 444 | 226 | 225 |
| $100 and over | 1 | [1] | [1] | 101 | 72 | 72 |
| Total | 58,869 | 11,685 | 13,120 | 2,071 | 504 | −12,616 |

[1] Less than 500 returns or $500,000.

Note: Details will not necessarily add to totals because of rounding.

TABLE 7K.—ESTIMATED DECREASE AND INCREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM GRANTING A $300 NONREFUNDABLE COMPULSORY TAX CREDIT IN LIEU OF THE $750 PERSONAL EXEMPTION DEDUCTION, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Returns with tax decrease: Total number with tax decrease (thousands) | Returns with tax decrease: Number made nontaxable (thousands) | Returns with tax decrease: Decrease in tax liability (millions) | Returns with tax increase: Number of returns (thousands) | Returns with tax increase: Increase in tax liability (millions) | Net change in tax liability (millions) |
|---|---|---|---|---|---|---|
| 0 to $3 | 3,221 | 3,192 | $198 | 0 | 0 | −$198 |
| $3 to $5 | 7,746 | 4,024 | 1,156 | 0 | 0 | −1,156 |
| $5 to $7 | 8,737 | 3,473 | 1,937 | 0 | 0 | −1,937 |
| $7 to $10 | 12,229 | 3,264 | 4,151 | 0 | 0 | −4,151 |
| $10 to $15 | 15,595 | 1,700 | 7,132 | 0 | 0 | −7,132 |
| $15 to $20 | 7,557 | 147 | 3,315 | 0 | 0 | −3,315 |
| $20 to $50 | 4,836 | 14 | 1,444 | 438 | $43 | −1,401 |
| $50 to $100 | 12 | (1) | 2 | 437 | 138 | 136 |
| $100 and over | 1 | (1) | (1) | 101 | 53 | 53 |
| Total | 59,934 | 15,815 | 19,337 | 975 | 235 | 19,102 |

1 Less than 500 returns or $500,000.

Note: Details will not necessarily add to totals because of rounding.

TABLE 7L.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX BURDEN RESULTING FROM THE GRANTING OF A $25 NONREFUNDABLE TAX CREDIT IN COMBINATION WITH THE $750 PERSONAL EXEMPTION DEDUCTION, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number of returns affected (thousands): Number made nontaxable | Decrease in tax liability (millions) |
|---|---|---|---|
| 0 to $3 | 3,221 | 931 | $71 |
| $3 to $5 | 7,746 | 908 | 279 |
| $5 to $7 | 8,737 | 648 | 454 |
| $7 to $10 | 12,229 | 276 | 851 |
| $10 to $15 | 15,595 | 32 | 1,348 |
| $15 to $20 | 7,557 | 5 | 695 |
| $20 to $50 | 5,305 | 2 | 501 |
| $50 to $100 | 449 | (1) | 45 |
| $100 and over | 102 | (1) | 10 |
| Total | 60,940 | 2,802 | 4,253 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

# TAX BURDEN TABLES

## On Providing a TAX CREDIT in Lieu of, or in Combination with, the PERSONAL EXEMPTION DEDUCTION

### Showing the TAX BURDEN by Marital Status and Number of Dependents, for Selected Income Levels, Under Present Law and Under 12 Alternatives

TABLE 7a.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $150 NONREFUNDABLE OPTIONAL TAX CREDIT IN LIEU OF THE $750 PERSONAL EXEMPTION DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| Adjusted gross income | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $109 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 483 | [1] 322 | [1] $269 | [1] $208 | [1] $119 | [1] $98 | | | |
| $6,000 | [1] 681 | [1] 681 | [1] 484 | [1] 453 | [1] 362 | [1] 303 | [1] 245 | [1] $153 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,100 | [1] 848 | [1] 833 | [1] 706 | [1] 683 | [1] 559 | [1] 533 | [1] 322 | [1] $233 |
| $10,000 | 1,530 | 1,530 | 1,190 | 1,190 | 1,048 | 1,040 | 905 | 890 | 620 | 590 |
| $12,500 | 2,059 | 2,059 | 1,628 | 1,628 | 1,463 | 1,463 | 1,309 | 1,309 | 1,024 | 1,024 |
| $15,000 | 2,630 | 2,630 | 2,095 | 2,095 | 1,930 | 1,930 | 1,765 | 1,765 | 1,435 | 1,435 |
| $17,500 | 3,249 | 3,249 | 2,604 | 2,604 | 2,416 | 2,416 | 2,233 | 2,233 | 1,903 | 1,903 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,948 | 2,760 | 2,760 | 2,385 | 2,385 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 7b.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $165 NONREFUNDABLE OPTIONAL TAX CREDIT IN LIEU OF THE $750 PERSONAL EXEMPTION DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| Adjusted gross income | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $94 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 468 | [1] 322 | [1] $239 | [1] $208 | [1] $74 | [1] $98 | | | |
| $6,000 | [1] 681 | [1] 672 | [1] 484 | [1] 423 | [1] 362 | [1] 258 | [1] 245 | [1] $93 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,100 | [1] 818 | [1] 803 | [1] 706 | [1] 638 | [1] 569 | [1] 473 | [1] 322 | [1] $143 |
| $10,000 | 1,530 | 1,530 | 1,190 | 1,160 | 1,048 | 995 | 905 | 830 | 620 | 500 |
| $12,500 | 2,059 | 2,059 | 1,628 | 1,628 | 1,463 | 1,463 | 1,309 | 1,298 | 1,024 | 968 |
| $15,000 | 2,630 | 2,630 | 2,095 | 2,095 | 1,930 | 1,930 | 1,765 | 1,765 | 1,435 | 1,435 |
| $17,500 | 3,249 | 3,249 | 2,604 | 2,604 | 2,416 | 2,416 | 2,233 | 2,233 | 1,903 | 1,903 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,948 | 2,760 | 2,760 | 2,385 | 2,385 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 7c.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $200 NONREFUNDABLE OPTIONAL TAX CREDIT IN LIEU OF THE $750 PERSONAL EXEMPTION DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $59 | [1] $28 | ---------- | ---------- | ---------- | ---------- | ---------- | ---------- | ---------- |
| $5,000 | [1] 491 | [1] 433 | [1] 322 | [1] $169 | [1] $208 | ---------- | [1] $98 | ---------- | ---------- | ---------- |
| $6,000 | [1] 681 | [1] 637 | [1] 484 | [1] 353 | [1] 362 | [1] $153 | [1] 245 | ---------- | [1] $28 | ---------- |
| $8,000 | [1] 1,100 | [1] 1,078 | [1] 848 | [1] 733 | [1] 706 | [1] 533 | [1] 569 | [1] $333 | [1] 322 | ---------- |
| $10,000 | 1,530 | 1,515 | 1,190 | 1,090 | 1,048 | 890 | 905 | 690 | 620 | $290 |
| $12,500 | 2,059 | 2,059 | 1,628 | 1,558 | 1,463 | 1,358 | 1,309 | 1,158 | 1,024 | 758 |
| $15,000 | 2,630 | 2,630 | 2,095 | 2,048 | 1,930 | 1,848 | 1,765 | 1,648 | 1,435 | 1,248 |
| $17,500 | 3,249 | 3,249 | 2,604 | 2,579 | 2,416 | 2,379 | 2,233 | 2,179 | 1,903 | 1,779 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,135 | 2,948 | 2,940 | 2,760 | 2,740 | 2,385 | 2,340 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,310 | 4,100 | 4,100 | 3,890 | 3,890 | 3,470 | 3,470 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 7d.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $250 NONREFUNDABLE OPTIONAL TAX CREDIT IN LIEU OF THE $750 PERSONAL EXEMPTION DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $9 | [1] $28 | ---------- | ---------- | ---------- | ---------- | ---------- | ---------- | ---------- |
| $5,000 | [1] 491 | [1] 383 | [1] 322 | [1] $69 | [1] $208 | ---------- | [1] $98 | ---------- | ---------- | ---------- |
| $6,000 | [1] 681 | [1] 587 | [1] 484 | [1] 253 | [1] 362 | [1] $3 | [1] 245 | ---------- | [1] $28 | ---------- |
| $8,000 | [1] 1,100 | [1] 1,028 | [1] 848 | [1] 633 | [1] 706 | [1] 383 | [1] 569 | [1] $133 | [1] 322 | ---------- |
| $10,000 | 1,530 | 1,465 | 1,190 | 990 | 1,048 | 740 | 905 | 490 | 620 | ---------- |
| $12,500 | 2,059 | 2,009 | 1,628 | 1,458 | 1,463 | 1,208 | 1,309 | 958 | 1,024 | $458 |
| $15,000 | 2,630 | 2,598 | 2,095 | 1,948 | 1,930 | 1,698 | 1,765 | 1,448 | 1,435 | 948 |
| $17,500 | 3,249 | 3,231 | 2,604 | 2,479 | 2,416 | 2,229 | 2,233 | 1,979 | 1,903 | 1,479 |
| $20,000 | 3,915 | 3,915 | 3,135 | 3,040 | 2,948 | 2,790 | 2,760 | 2,540 | 2,385 | 2,040 |
| $25,000 | 5,420 | 5,420 | 4,310 | 4,280 | 4,100 | 4,030 | 3,890 | 3,780 | 3,470 | 3,280 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 7e.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $300 NONREFUNDABLE OPTIONAL TAX CREDIT IN LIEU OF THE $750 PERSONAL EXEMPTION DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | .......... | [1] $28 | .......... | .......... | .......... | .......... | .......... | .......... | .......... |
| $5,000 | [1] 491 | [1] $333 | [1] 322 | .......... | [1] $208 | .......... | [1] $98 | .......... | .......... | .......... |
| $6,000 | [1] 681 | [1] 537 | [1] 484 | [1] $153 | [1] 362 | .......... | [1] 245 | .......... | [1] $28 | .......... |
| $8,000 | [1] 1,100 | [1] 978 | [1] 848 | [1] 533 | [1] 706 | [1] $233 | [1] 569 | .......... | [1] 322 | .......... |
| $10,000 | 1,530 | 1,415 | 1,190 | 890 | 1,048 | 590 | 905 | $290 | 620 | .......... |
| $12,500 | 2,059 | 1,959 | 1,628 | 1,358 | 1,463 | 1,058 | 1,309 | 758 | 1,024 | $158 |
| $15,000 | 2,630 | 2,548 | 2,095 | 1,848 | 1,930 | 1,548 | 1,765 | 1,248 | 1,435 | 648 |
| $17,500 | 3,249 | 3,181 | 2,604 | 2,379 | 2,416 | 2,079 | 2,233 | 1,779 | 1,903 | 1,179 |
| $20,000 | 3,915 | 3,870 | 3,135 | 2,940 | 2,948 | 2,640 | 2,760 | 2,340 | 2,385 | 1,740 |
| $25,000 | 5,420 | 5,405 | 4,310 | 4,180 | 4,100 | 3,880 | 3,890 | 3,580 | 3,470 | 2,980 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 7f.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $200 NONREFUNDABLE TAX CREDIT OR AN $850 PERSONAL EXEMPTION DEDUCTION AT THE TAXPAYER'S OPTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $59 | [1] $28 | .......... | .......... | .......... | .......... | .......... | .......... | .......... |
| $5,000 | [1] 491 | [1] 433 | [1] 322 | [1] $169 | [1] $208 | .......... | [1] $98 | .......... | .......... | .......... |
| $6,000 | [1] 681 | [1] 637 | [1] 484 | [1] 353 | [1] 362 | [1] $153 | [1] 245 | .......... | [1] $28 | .......... |
| $8,000 | [1] 1,100 | [1] 1,078 | [1] 848 | [1] 733 | [1] 706 | [1] 533 | [1] 569 | [1] $333 | [1] 322 | .......... |
| $10,000 | 1,530 | 1,506 | 1,190 | 1,090 | 1,048 | 890 | 905 | 690 | 620 | $290 |
| $12,500 | 2,059 | 2,034 | 1,628 | 1,558 | 1,463 | 1,358 | 1,309 | 1,158 | 1,024 | 758 |
| $15,000 | 2,630 | 2,603 | 2,095 | 2,048 | 1,930 | 1,848 | 1,765 | 1,648 | 1,435 | 1,248 |
| $17,500 | 3,249 | 3,218 | 2,604 | 2,554 | 2,416 | 2,341 | 2,233 | 2,145 | 1,903 | 1,771 |
| $20,000 | 3,915 | 3,881 | 3,135 | 3,085 | 2,948 | 2,873 | 2,760 | 2,660 | 2,385 | 2,238 |
| $25,000 | 5,420 | 5,382 | 4,310 | 4,254 | 4,100 | 4,016 | 3,890 | 3,778 | 3,470 | 3,302 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 7g.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $150 NONREFUNDABLE COMPULSORY TAX CREDIT IN LIEU OF THE $750 PERSONAL EXEMPTION DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO. 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| Adjusted gross income | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $109 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 483 | [1] 322 | [1] $269 | [1] $208 | [1] $119 | [1] $98 | | | |
| $6,000 | [1] 681 | [1] 687 | [1] 484 | [1] 453 | [1] 362 | [1] 303 | [1] 245 | [1] $153 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,128 | [1] 848 | [1] 833 | [1] 706 | [1] 683 | [1] 569 | [1] 533 | [1] 322 | [1] $233 |
| $10,000 | 1,530 | 1,565 | 1,190 | 1,190 | 1,048 | 1,040 | 905 | 890 | 620 | 590 |
| $12,500 | 2,059 | 2,109 | 1,628 | 1,658 | 1,463 | 1,508 | 1,309 | 1,358 | 1,024 | 1,058 |
| $15,000 | 2,630 | 2,698 | 2,095 | 2,148 | 1,930 | 1,998 | 1,765 | 1,848 | 1,435 | 1,548 |
| $17,500 | 3,249 | 3,331 | 2,604 | 2,679 | 2,416 | 2,529 | 2,233 | 2,379 | 1,903 | 2,079 |
| $20,000 | 3,915 | 4,020 | 3,135 | 3,240 | 2,948 | 3,090 | 2,760 | 2,940 | 2,385 | 2,640 |
| $25,000 | 5,420 | 5,555 | 4,310 | 4,480 | 4,100 | 4,330 | 3,890 | 4,180 | 3,470 | 3,880 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 7h.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $165 NONREFUNDABLE COMPULSORY TAX CREDIT IN LIEU OF THE $750 PERSONAL EXEMPTION DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| Adjusted gross income | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $94 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 468 | [1] 322 | [1] $239 | [1] $208 | [1] $74 | [1] $98 | | | |
| $6,000 | [1] 681 | [1] 672 | [1] 484 | [1] 423 | [1] 362 | [1] 258 | [1] 245 | [1] $93 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,113 | [1] 848 | [1] 803 | [1] 706 | [1] 638 | [1] 569 | [1] 473 | [1] 322 | [1] $143 |
| $10,000 | 1,530 | 1,550 | 1,190 | 1,160 | 1,048 | 995 | 905 | 830 | 620 | 500 |
| $12,500 | 2,059 | 2,094 | 1,628 | 1,628 | 1,463 | 1,463 | 1,309 | 1,298 | 1,024 | 968 |
| $15,000 | 2,630 | 2,683 | 2,095 | 2,118 | 1,930 | 1,953 | 1,765 | 1,788 | 1,435 | 1,458 |
| $17,500 | 3,249 | 3,316 | 2,604 | 2,649 | 2,416 | 2,484 | 2,233 | 2,319 | 1,903 | 1,989 |
| $20,000 | 3,915 | 4,005 | 3,135 | 3,210 | 2,948 | 3,045 | 2,760 | 2,880 | 2,385 | 2,550 |
| $25,000 | 5,420 | 5,540 | 4,310 | 4,450 | 4,100 | 4,285 | 3,890 | 4,120 | 3,470 | 3,790 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

**TABLE 7i.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $200 NONREFUNDABLE COMPULSORY TAX CREDIT IN LIEU OF THE $750 PERSONAL EXEMPTION DEDUCTION**

**SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)**

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $59 | [1] $28 | ... | ... | ... | ... | ... | ... | ... |
| $5,000 | [1] 491 | [1] 433 | [1] 322 | [1] $169 | [1] $208 | ... | [1] $98 | ... | ... | ... |
| $6,000 | [1] 681 | [1] 637 | [1] 484 | [1] 353 | [1] 362 | [1] $153 | [1] 245 | ... | [1] $28 | ... |
| $8,000 | [1] 1,100 | [1] 1,078 | [1] 848 | [1] 733 | [1] 706 | [1] 533 | [1] 569 | [1] $333 | [1] 322 | ... |
| $10,000 | 1,530 | 1,515 | 1,190 | 1,090 | 1,048 | 890 | 905 | 690 | 620 | $290 |
| $12,500 | 2,059 | 2,059 | 1,628 | 1,558 | 1,463 | 1,358 | 1,309 | 1,158 | 1,024 | 758 |
| $15,000 | 2,630 | 2,648 | 2,095 | 2,048 | 1,930 | 1,848 | 1,765 | 1,648 | 1,435 | 1,248 |
| $17,500 | 3,249 | 3,281 | 2,604 | 2,579 | 2,416 | 2,379 | 2,233 | 2,179 | 1,903 | 1,779 |
| $20,000 | 3,915 | 3,970 | 3,135 | 3,140 | 2,948 | 2,940 | 2,760 | 2,740 | 2,395 | 2,340 |
| $25,000 | 5,420 | 5,505 | 4,310 | 4,380 | 4,100 | 4,180 | 3,890 | 3,980 | 3,470 | 3,580 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

**TABLE 7j.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $250 NONREFUNDABLE COMPULSORY TAX CREDIT IN LIEU OF THE $750 PERSONAL EXEMPTION DEDUCTION**

**SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)**

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $9 | [1] $28 | ... | ... | ... | ... | ... | ... | ... |
| $5,000 | [1] 491 | [1] 383 | [1] 322 | [1] $69 | [1] $208 | ... | [1] $98 | ... | ... | ... |
| $6,000 | [1] 681 | [1] 587 | [1] 484 | [1] 253 | [1] 362 | [1] $3 | [1] 245 | ... | [1] $28 | ... |
| $8,000 | [1] 1,100 | [1] 1,028 | [1] 848 | [1] 633 | [1] 706 | [1] 383 | [1] 569 | [1] $133 | [1] 322 | ... |
| $10,000 | 1,530 | 1,465 | 1,190 | 990 | 1,048 | 740 | 905 | 490 | 620 | ... |
| $12,500 | 2,059 | 2,009 | 1,628 | 1,458 | 1,463 | 1,208 | 1,309 | 958 | 1,024 | $458 |
| $15,000 | 2,630 | 2,598 | 2,095 | 1,948 | 1,930 | 1,698 | 1,765 | 1,448 | 1,435 | 948 |
| $17,500 | 3,249 | 3,231 | 2,604 | 2,479 | 2,416 | 2,229 | 2,233 | 1,979 | 1,903 | 1,479 |
| $20,000 | 3,915 | 3,920 | 3,135 | 3,040 | 2,948 | 2,790 | 2,760 | 2,540 | 2,385 | 2,040 |
| $25,000 | 5,420 | 5,455 | 4,310 | 4,280 | 4,100 | 4,030 | 3,890 | 3,780 | 3,470 | 3,280 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.



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TABLE 7k.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $300 NONREFUNDABLE COMPULSORY TAX CREDIT IN LIEU OF THE $750 PERSONAL EXEMPTION DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] $333 | [1] 322 | | [1] $208 | | [1] $98 | | | |
| $6,000 | [1] 681 | [1] 537 | [1] 484 | [1] $153 | [1] 362 | | [1] 245 | | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 978 | [1] 848 | [1] 533 | [1] 706 | [1] $233 | [1] 569 | | [1] 322 | |
| $10,000 | 1,530 | 1,415 | 1,190 | 890 | 1,048 | 590 | 905 | $290 | 620 | |
| $12,500 | 2,059 | 1,959 | 1,628 | 1,358 | 1,463 | 1,058 | 1,309 | 758 | 1,024 | $158 |
| $15,000 | 2,630 | 2,548 | 2,095 | 1,848 | 1,930 | 1,548 | 1,765 | 1,248 | 1,435 | 648 |
| $17,500 | 3,249 | 3,181 | 2,604 | 2,379 | 2,416 | 2,079 | 2,233 | 1,779 | 1,903 | 1,179 |
| $20,000 | 3,915 | 3,870 | 3,135 | 2,940 | 2,948 | 2,640 | 2,760 | 2,340 | 2,385 | 1,740 |
| $25,000 | 5,420 | 5,405 | 4,310 | 4,180 | 4,100 | 3,880 | 3,890 | 3,580 | 3,470 | 2,980 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 7l.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $25 NONREFUNDABLE TAX CREDIT IN COMBINATION WITH THE $750 PERSONAL EXEMPTION DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO. 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $113 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 466 | [1] 322 | [1] $272 | [1] $208 | [1] $133 | [1] $98 | | | |
| $6,000 | [1] 681 | [1] 656 | [1] 484 | [1] 434 | [1] 362 | [1] 287 | [1] 245 | [1] $145 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,075 | [1] 848 | [1] 798 | [1] 706 | [1] 631 | [1] 569 | [1] 469 | [1] 322 | [1] $172 |
| $10,000 | 1,530 | 1,505 | 1,190 | 1,140 | 1,048 | 973 | 905 | 805 | 620 | 470 |
| $12,500 | 2,059 | 2,034 | 1,628 | 1,578 | 1,463 | 1,388 | 1,309 | 1,209 | 1,024 | 874 |
| $15,000 | 2,630 | 2,605 | 2,095 | 2,045 | 1,930 | 1,855 | 1,765 | 1,665 | 1,435 | 1,285 |
| $17,500 | 3,249 | 3,224 | 2,604 | 2,554 | 2,416 | 2,341 | 2,233 | 2,133 | 1,903 | 1,753 |
| $20,000 | 3,915 | 3,890 | 3,135 | 3,085 | 2,948 | 2,873 | 2,760 | 2,660 | 2,385 | 2,235 |
| $25,000 | 5,420 | 5,395 | 4,310 | 4,260 | 4,100 | 4,025 | 3,890 | 3,790 | 3,470 | 3,320 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

# DISTRIBUTIONAL TABLES

## On Liberalizing the MINIMUM STANDARD DEDUCTION AND THE PERSONAL EXEMPTION DEDUCTION

### Showing the Number of Returns Affected and the Change in Tax Liability, BY ADJUSTED GROSS INCOME CLASS, Under Present Law and Under 4 Alternatives

TABLE 8A.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MINIMUM STANDARD DEDUCTION FROM $1,300 TO $1,400 AND THE PERSONAL EXEMPTION DEDUCTION FROM $750 TO $850, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) |
|---|---|---|---|---|
| 0 to $3 | 3,221 | 1,014 | 123 | $78 |
| $3 to $5 | 7,746 | 642 | 323 | 288 |
| $5 to $7 | 8,737 | 379 | 350 | 416 |
| $7 to $10 | 12,229 | 141 | 260 | 708 |
| $10 to $15 | 15,595 | 14 | 6 | 1,059 |
| $15 to $20 | 7,557 | 4 | 0 | 624 |
| $20 to $50 | 5,305 | (1) | 0 | 582 |
| $50 to $100 | 449 | (1) | 0 | 88 |
| $100 and over | 102 | (1) | 0 | 22 |
| Total | 60,940 | 2,194 | 1,061 | 3,866 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 8B.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MINIMUM STANDARD DEDUCTION FROM $1,300 TO $1,500 AND THE PERSONAL EXEMPTION DEDUCTION FROM $750 TO $850, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | Decrease in tax liability (millions) |
|---|---|---|---|---|
| 0 to $3 | 3,221 | 1,275 | 155 | $107 |
| $3 to $5 | 7,746 | 810 | 516 | 390 |
| $5 to $7 | 8,737 | 397 | 610 | 524 |
| $7 to $10 | 12,229 | 143 | 601 | 833 |
| $10 to $15 | 15,595 | 14 | 6 | 1,059 |
| $15 to $20 | 7,557 | 4 | 0 | 624 |
| $20 to $50 | 5,305 | (1) | 0 | 582 |
| $50 to $100 | 449 | (1) | 0 | 88 |
| $100 and over | 102 | (1) | 0 | 22 |
| Total | 60,940 | 2,644 | 1,888 | 4,230 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 8C.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MINIMUM STANDARD DEDUCTION FROM $1,300 TO $1,600 AND THE PERSONAL EXEMPTION DEDUCTION FROM $750 TO $350, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands) | | | Decrease in tax liability (millions) |
|---|---|---|---|---|
| | Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | |
| 0 to $3 | 3,221 | 1,619 | 172 | $132 |
| $3 to $5 | 7,746 | 1,021 | 608 | 490 |
| $5 to $7 | 8,737 | 412 | 901 | 636 |
| $7 to $10 | 12,229 | 144 | 923 | 977 |
| $10 to $15 | 15,595 | 14 | 60 | 1,074 |
| $15 to $20 | 7,557 | 4 | 0 | 624 |
| $20 to $50 | 5,305 | (1) | 0 | 582 |
| $50 to $100 | 449 | (1) | 0 | 88 |
| $100 and over | 102 | (1) | 0 | 22 |
| Total | 60,940 | 3,215 | 2,663 | 4,626 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 8D.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM INCREASING THE MINIMUM STANDARD DEDUCTION FROM $1,300 TO $1,700 AND THE PERSONAL EXEMPTION DEDUCTION FROM $750 TO $850, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands) | | | Decrease in tax liability (millions) |
|---|---|---|---|---|
| | Total number with tax decrease | Number made nontaxable | Number shifting to the standard deduction | |
| 0 to $3 | 3,221 | 1,863 | 192 | $152 |
| $3 to $5 | 7,746 | 1,148 | 712 | 588 |
| $5 to $7 | 8,737 | 486 | 1,139 | 752 |
| $7 to $10 | 12,229 | 144 | 1,357 | 1,128 |
| $10 to $15 | 15,595 | 14 | 153 | 1,115 |
| $15 to $20 | 7,557 | 4 | 0 | 624 |
| $20 to $50 | 5,305 | (1) | 0 | 582 |
| $50 to $100 | 449 | (1) | 0 | 88 |
| $100 and over | 102 | (1) | 0 | 22 |
| Total | 60,940 | 3,659 | 3,552 | 5,050 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

# TAX BURDEN TABLES

## On Liberalizing the MINIMUM STANDARD DEDUCTION AND THE PERSONAL EXEMPTION DEDUCTION

### Showing the TAX BURDEN by Marital Status and Number of Dependents, for Selected Income Levels, Under Present Law and Under 4 Alternatives

TABLE 8a.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $1,400 MINIMUM STANDARD DEDUCTION AND AN $850 PERSONAL EXEMPTION DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| Adjusted gross income | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $108 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 453 | [1] 322 | [1] $275 | [1] $208 | [1] $148 | [1] $98 | [1] $28 | | |
| $6,000 | [1] 681 | [1] 643 | [1] 484 | [1] 434 | [1] 362 | [1] 298 | [1] 245 | [1] 170 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,058 | [1] 848 | [1] 791 | [1] 706 | [1] 630 | [1] 569 | [1] 484 | [1] 322 | [1] $215 |
| $10,000 | 1,530 | 1,506 | 1,190 | 1,152 | 1,048 | 991 | 905 | 829 | 620 | 518 |
| $12,500 | 2,059 | 2,034 | 1,628 | 1,584 | 1,463 | 1,397 | 1,309 | 1,233 | 1,024 | 910 |
| $15,000 | 2,630 | 2,603 | 2,095 | 2,051 | 1,930 | 1,864 | 1,765 | 1,677 | 1,435 | 1,314 |
| $17,500 | 3,249 | 3,218 | 2,604 | 2,554 | 2,416 | 2,341 | 2,233 | 2,145 | 1,903 | 1,771 |
| $20,000 | 3,915 | 3,881 | 3,135 | 3,085 | 2,948 | 2,873 | 2,760 | 2,660 | 2,385 | 2,238 |
| $25,000 | 5,420 | 5,382 | 4,310 | 4,254 | 4,100 | 4,016 | 3,890 | 3,778 | 3,470 | 3,302 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 8b.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $1,500 MINIMUM STANDARD DEDUCTION AND AN $850 PERSONAL EXEMPTION DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| Adjusted gross income | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $93 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 434 | [1] 322 | [1] $260 | [1] $208 | [1] $133 | [1] $98 | [1] $14 | | |
| $6,000 | [1] 681 | [1] 624 | [1] 484 | [1] 418 | [1] 362 | [1] 283 | [1] 245 | [1] 155 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,037 | [1] 848 | [1] 772 | [1] 706 | [1] 612 | [1] 569 | [1] 467 | [1] 322 | [1] $200 |
| $10,000 | 1,530 | 1,506 | 1,190 | 1,152 | 1,048 | 991 | 905 | 829 | 620 | 518 |
| $12,500 | 2,059 | 2,034 | 1,628 | 1,584 | 1,463 | 1,397 | 1,309 | 1,233 | 1,024 | 910 |
| $15,000 | 2,630 | 2,603 | 2,095 | 2,051 | 1,930 | 1,864 | 1,765 | 1,677 | 1,435 | 1,314 |
| $17,500 | 3,249 | 3,218 | 2,604 | 2,554 | 2,416 | 2,341 | 2,233 | 2,145 | 1,903 | 1,771 |
| $20,000 | 3,915 | 3,881 | 3,135 | 3,085 | 2,948 | 2,873 | 2,760 | 2,660 | 2,385 | 2,238 |
| $25,000 | 5,420 | 5,382 | 4,310 | 4,254 | 4,100 | 4,016 | 3,890 | 3,778 | 3,470 | 3,302 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 8c.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $1,600 MINIMUM STANDARD DEDUCTION AND AN $850 PERSONAL EXEMPTION DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $78 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 415 | [1] 322 | [1] $245 | [1] $208 | [1] $119 | [1] $98 | | | |
| $6,000 | [1] 681 | [1] 605 | [1] 484 | [1] 402 | [1] 362 | [1] 268 | [1] 245 | [1] $140 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,016 | [1] 848 | [1] 753 | [1] 706 | [1] 595 | [1] 569 | [1] 450 | [1] 322 | [1] $185 |
| $10,000 | 1,530 | 1,482 | 1,190 | 1,133 | 1,048 | 972 | 905 | 810 | 620 | 501 |
| $12,500 | 2,059 | 2,034 | 1,628 | 1,584 | 1,463 | 1,397 | 1,309 | 1,233 | 1,024 | 910 |
| $15,000 | 2,630 | 2,603 | 2,095 | 2,051 | 1,930 | 1,864 | 1,765 | 1,677 | 1,435 | 1,314 |
| $17,500 | 3,249 | 3,218 | 2,604 | 2,554 | 2,416 | 2,341 | 2,233 | 2,145 | 1,903 | 1,771 |
| $20,000 | 3,915 | 3,881 | 3,135 | 3,085 | 2,948 | 2,873 | 2,760 | 2,660 | 2,385 | 2,238 |
| $25,000 | 5,420 | 5,382 | 4,310 | 4,254 | 4,100 | 4,016 | 3,890 | 3,778 | 3,470 | 3,302 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 8d.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER A $1,700 MINIMUM STANDARD DEDUCTION AND AN $850 PERSONAL EXPEMPTION DEDUCTION

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $63 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 396 | [1] 322 | [1] $230 | [1] $208 | [1] $105 | [1] $98 | | | |
| $6,000 | [1] 681 | [1] 586 | [1] 484 | [1] 386 | [1] 362 | [1] 253 | [1] 245 | [1] $126 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 995 | [1] 848 | [1] 734 | [1] 706 | [1] 578 | [1] 569 | [1] 434 | [1] 322 | [1] $170 |
| $10,000 | 1,530 | 1,458 | 1,190 | 1,114 | 1,048 | 953 | 905 | 791 | 620 | 484 |
| $12,500 | 2,059 | 2,034 | 1,628 | 1,584 | 1,463 | 1,397 | 1,309 | 1,233 | 1,024 | 910 |
| $15,000 | 2,630 | 2,603 | 2,095 | 2,051 | 1,930 | 1,864 | 1,765 | 1,677 | 1,435 | 1,314 |
| $17,500 | 3,249 | 3,218 | 2,604 | 2,554 | 2,416 | 2,341 | 2,233 | 2,145 | 1,903 | 1,771 |
| $20,000 | 3,915 | 3,881 | 3,135 | 3,085 | 2,948 | 2,873 | 2,760 | 2,660 | 2,385 | 2,238 |
| $25,000 | 5,420 | 5,382 | 4,310 | 4,254 | 4,100 | 4,016 | 3,890 | 3,778 | 3,470 | 3,302 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

# DISTRIBUTIONAL TABLES

## On Granting a GENERAL NONREFUNDABLE TAX CREDIT

### Showing the Number of Returns Affected and the Change in Tax Liability, BY ADJUSTED GROSS INCOME CLASS, Under Present Law and Under 7 Alternatives

TABLE 9A.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM GRANTING A $12.50 ($25 FOR JOINT RETURNS) GENERAL NONREFUNDABLE TAX CREDIT, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number of returns affected (thousands): Number made nontaxable | Decrease in tax liability (millions) |
|---|---|---|---|
| 0 to $3 | 3,221 | 459 | $38 |
| $3 to $5 | 7,746 | 337 | 117 |
| $5 to $7 | 8,737 | 112 | 157 |
| $7 to $10 | 12,229 | 31 | 249 |
| $10 to $15 | 15,595 | 6 | 361 |
| $15 to $20 | 7,557 | 2 | 182 |
| $20 to $50 | 5,305 | (1) | 129 |
| $50 to $100 | 449 | (1) | 11 |
| $100 and over | 102 | (1) | 2 |
| Total | 60,940 | 946 | 1,247 |

[1] Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 9B.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM GRANTING A $13 ($26 FOR JOINT RETURNS) GENERAL NONREFUNDABLE TAX CREDIT, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number of returns affected (thousands): Number made nontaxable | Decrease in tax liability (millions) |
|---|---|---|---|
| 0 to $3 | 3,221 | 459 | $40 |
| $3 to $5 | 7,746 | 337 | 121 |
| $5 to $7 | 8,737 | 112 | 163 |
| $7 to $10 | 12,229 | 33 | 259 |
| $10 to $15 | 15,595 | 6 | 376 |
| $15 to $20 | 7,557 | 2 | 190 |
| $20 to $50 | 5,305 | (1) | 134 |
| $50 to $100 | 449 | (1) | 11 |
| $100 and over | 102 | (1) | 2 |
| Total | 60,940 | 94[illegible] | 1,296 |

[1] Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 9C.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM GRANTING A $25 ($50 FOR JOINT RETURNS) GENERAL NONREFUNDABLE TAX CREDIT, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands) | | Decrease in tax liability (millions) |
|---|---|---|---|
| | Total number with tax decrease | Number made nontaxable | |
| 0 to $3 | 3,221 | 917 | $71 |
| $3 to $5 | 7,746 | 619 | 227 |
| $5 to $7 | 8,737 | 301 | 309 |
| $7 to $10 | 12,229 | 74 | 498 |
| $10 to $15 | 15,595 | 6 | 722 |
| $15 to $20 | 7,557 | 2 | 365 |
| $20 to $50 | 5,305 | (1) | 258 |
| $50 to $100 | 449 | (1) | 22 |
| $100 and over | 102 | (1) | 5 |
| Total | 60,940 | 1,918 | 2,476 |

[1] Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 9D.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM GRANTING A $27 ($54 FOR JOINT RETURNS) GENERAL NONREFUNDABLE TAX CREDIT, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands) | | Decrease in tax liability (millions) |
|---|---|---|---|
| | Total number with tax decrease | Number made nontaxable | |
| 0 to $3 | 3,221 | 1,032 | $75 |
| $3 to $5 | 7,746 | 623 | 244 |
| $5 to $7 | 8,737 | 301 | 333 |
| $7 to $10 | 12,229 | 75 | 538 |
| $10 to $15 | 15,595 | 6 | 780 |
| $15 to $20 | 7,557 | 2 | 394 |
| $20 to $50 | 5,305 | (1) | 278 |
| $50 to $100 | 449 | (1) | 23 |
| $100 and over | 102 | (1) | 5 |
| Total | 60,940 | 2,039 | 2,671 |

[1] Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 9E.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM GRANTING A $35 ($70 FOR JOINT RETURNS) GENERAL NONREFUNDABLE TAX CREDIT, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number of returns affected (thousands): Number made nontaxable | Decrease in tax liability (millions) |
|---|---|---|---|
| 0 to $3 | 3,221 | 1,221 | $92 |
| $3 to $5 | 7,746 | 780 | 312 |
| $5 to $7 | 8,736 | 344 | 429 |
| $7 to $10 | 12,229 | 124 | 696 |
| $10 to $15 | 15,595 | 6 | 1,011 |
| $15 to $20 | 7,557 | 2 | 510 |
| $20 to $50 | 5,305 | (1) | 361 |
| $50 to $100 | 449 | (1) | 30 |
| $100 and over | 102 | (1) | 7 |
| Total | 60,940 | 2,477 | 3,449 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 9F.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM GRANTING A GENERAL NONREFUNDABLE TAX CREDIT OF $50 PER FEDERAL INDIVIDUAL INCOME TAX RETURN, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number of returns affected (thousands): Number made nontaxable | Decrease in tax liability (millions) |
|---|---|---|---|
| 0 to $3 | 3,221 | 1,416 | $118 |
| $3 to $5 | 7,746 | 721 | 360 |
| $5 to $7 | 8,737 | 332 | 418 |
| $7 to $10 | 12,229 | 74 | 600 |
| $10 to $15 | 15,595 | 6 | 775 |
| $15 to $20 | 7,557 | 2 | 376 |
| $20 to $50 | 5,305 | 1 | 264 |
| $50 to $100 | 449 | (1) | 22 |
| $100 and over | 102 | (1) | 5 |
| Total | 60,940 | 2,551 | 2,939 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

TABLE 9G.—ESTIMATED DECREASE IN FEDERAL INDIVIDUAL INCOME TAX LIABILITY RESULTING FROM GRANTING A $50 ($100 FOR JOINT RETURNS) GENERAL NONREFUNDABLE TAX CREDIT, BY ADJUSTED GROSS INCOME CLASS

[1972 income levels]

| Adjusted gross income class (thousands) | Number of returns affected (thousands): Total number with tax decrease | Number of returns affected (thousands): Number made nontaxable | Decrease in tax liability (millions) |
|---|---|---|---|
| 0 to $3 | 3, 221 | 1, 447 | $121 |
| $3 to $5 | 7, 746 | 1, 145 | 431 |
| $5 to $7 | 8, 737 | 519 | 606 |
| $7 to $10 | 12, 229 | 172 | 992 |
| $10 to $15 | 15, 595 | 20 | 1, 444 |
| $15 to $20 | 7, 557 | 4 | 729 |
| $20 to $50 | 5, 305 | 1 | 515 |
| $50 to $100 | 449 | (1) | 43 |
| $100 and over | 102 | (1) | 10 |
| Total | 60, 940 | 3, 307 | 4, 891 |

1 Less than 500 returns.

Note: Details will not necessarily add to totals because of rounding.

# TAX BURDEN TABLES

## On Granting a GENERAL NONREFUNDABLE TAX CREDIT

### Showing the TAX BURDEN by Marital Status and Number of Dependents, for Selected Income Levels, Under Present Law and Under 7 Alternatives

TABLE 9a.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER THE GRANTING OF A $12.50 ($25 FOR JOINT RETURNS) GENERAL NONREFUNDABLE TAX CREDIT

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $125 | [1] $28 | [1] $3 | | | | | | |
| $5,000 | [1] 491 | [1] 478 | [1] 322 | [1] 297 | [1] $208 | [1] $183 | [1] $98 | [1] $73 | | |
| $6,000 | [1] 681 | [1] 668 | [1] 484 | [1] 459 | [1] 362 | [1] 337 | [1] 245 | [1] 220 | [1] $28 | [1] $3 |
| $8,000 | [1] 1,100 | [1] 1,087 | [1] 848 | [1] 823 | [1] 706 | [1] 681 | [1] 569 | [1] 544 | [1] 322 | [1] 297 |
| $10,000 | 1,530 | 1,518 | 1,190 | 1,165 | 1,048 | 1,023 | 905 | 880 | 620 | 595 |
| $12,500 | 2,059 | 2,046 | 1,628 | 1,603 | 1,463 | 1,438 | 1,309 | 1,284 | 1,024 | 999 |
| $15,000 | 2,630 | 2,618 | 2,095 | 2,070 | 1,930 | 1,905 | 1,765 | 1,740 | 1,435 | 1,410 |
| $17,500 | 3,249 | 3,236 | 2,604 | 2,579 | 2,416 | 2,391 | 2,233 | 2,208 | 1,903 | 1,878 |
| $20,000 | 3,915 | 3,903 | 3,135 | 3,110 | 2,948 | 2,923 | 2,760 | 2,735 | 2,385 | 2,360 |
| $25,000 | 5,420 | 5,408 | 4,310 | 4,285 | 4,100 | 4,075 | 3,890 | 3,865 | 3,470 | 3,445 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 9b.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER THE GRANTING OF A $13 ($26 FOR JOINT RETURNS) GENERAL NONREFUNDABLE TAX CREDIT

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $125 | [1] $28 | [1] $2 | | | | | | |
| $5,000 | [1] 491 | [1] 478 | [1] 322 | [1] 296 | [1] $208 | [1] $182 | [1] $98 | [1] $72 | | |
| $6,000 | [1] 681 | [1] 668 | [1] 484 | [1] 458 | [1] 362 | [1] 336 | [1] 245 | [1] 219 | [1] $28 | [1] $2 |
| $8,000 | [1] 1,100 | [1] 1,087 | [1] 848 | [1] 822 | [1] 706 | [1] 680 | [1] 569 | [1] 543 | [1] 322 | [1] 296 |
| $10,000 | 1,530 | 1,517 | 1,190 | 1,164 | 1,048 | 1,022 | 905 | 879 | 620 | 594 |
| $12,500 | 2,059 | 2,046 | 1,628 | 1,602 | 1,463 | 1,437 | 1,309 | 1,283 | 1,024 | 998 |
| $15,000 | 2,630 | 2,617 | 2,095 | 2,069 | 1,930 | 1,904 | 1,765 | 1,739 | 1,435 | 1,409 |
| $17,500 | 3,249 | 3,236 | 2,604 | 2,578 | 2,416 | 2,390 | 2,233 | 2,207 | 1,903 | 1,877 |
| $20,000 | 3,915 | 3,902 | 3,135 | 3,109 | 2,948 | 2,922 | 2,760 | 2,734 | 2,385 | 2,359 |
| $25,000 | 5,420 | 5,407 | 4,310 | 4,284 | 4,100 | 4,074 | 3,890 | 3,864 | 3,470 | 3,444 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 9c.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER THE GRANTING OF A $25 ($50 FOR JOINT RETURNS) GENERAL NONREFUNDABLE TAX CREDIT

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $113 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 466 | [1] 322 | [1] $272 | [1] $208 | [1] $158 | [1] $98 | [1] $48 | | |
| $6,000 | [1] 681 | [1] 656 | [1] 484 | [1] 434 | [1] 362 | [1] 312 | [1] 245 | [1] 195 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,075 | [1] 848 | [1] 798 | [1] 706 | [1] 656 | [1] 569 | [1] 519 | [1] 322 | [1] $272 |
| $10,000 | 1,530 | 1,505 | 1,190 | 1,140 | 1,048 | 998 | 905 | 855 | 620 | 570 |
| $12,500 | 2,059 | 1,034 | 1,628 | 1,578 | 1,463 | 1,413 | 1,309 | 1,259 | 1,024 | 974 |
| $15,000 | 2,630 | 2,605 | 2,095 | 2,045 | 1,930 | 1,880 | 1,765 | 1,715 | 1,435 | 1,385 |
| $17,500 | 3,249 | 3,224 | 2,604 | 2,554 | 2,416 | 2,366 | 2,233 | 2,183 | 1,903 | 1,853 |
| $20,000 | 3,915 | 3,890 | 3,135 | 3,085 | 2,948 | 2,898 | 2,760 | 2,710 | 2,385 | 2,335 |
| $25,000 | 5,420 | 5,395 | 4,310 | 4,260 | 4,100 | 4,050 | 3,890 | 3,840 | 3,470 | 3,420 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000

TABLE 9d.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER THE GRANTING OF A $27 ($54 FOR JOINT RETURNS) GENERAL NONREFUNDABLE TAX CREDIT

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $111 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 464 | [1] 322 | [1] $268 | [1] $208 | [1] $154 | [1] $98 | [1] $44 | | |
| $6,000 | [1] 681 | [1] 654 | [1] 484 | [1] 430 | [1] 362 | [1] 308 | [1] 245 | [1] 191 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,073 | [1] 848 | [1] 794 | [1] 706 | [1] 652 | [1] 569 | [1] 515 | [1] 322 | [1] $268 |
| $10,000 | 1,530 | 1,503 | 1,190 | 1,136 | 1,048 | 994 | 905 | 851 | 620 | 566 |
| $12,500 | 2,059 | 1,032 | 1,628 | 1,574 | 1,463 | 1,409 | 1,309 | 1,255 | 1,024 | 970 |
| $15,000 | 2,630 | 2,603 | 2,095 | 2,041 | 1,930 | 1,876 | 1,765 | 1,711 | 1,435 | 1,381 |
| $17,500 | 3,249 | 3,222 | 2,604 | 2,550 | 2,416 | 2,362 | 2,233 | 2,179 | 1,903 | 1,849 |
| $20,000 | 3,915 | 3,888 | 3,135 | 3,081 | 2,948 | 2,894 | 2,760 | 2,706 | 2,385 | 2,331 |
| $25,000 | 5,420 | 5,393 | 4,310 | 4,256 | 4,100 | 4,046 | 3,890 | 3,836 | 3,470 | 3,416 |

Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 9e.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER THE GRANTING OF A $35 ($70 FOR JOINT RETURNS) GENERAL NONREFUNDABLE TAX CREDIT

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $103 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 456 | [1] 322 | [1] $252 | [1] $208 | [1] $138 | [1] $98 | [1] $28 | | |
| $6,000 | [1] 681 | [1] 646 | [1] 484 | [1] 414 | [1] 362 | [1] 292 | [1] 245 | [1] 175 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,065 | [1] 848 | [1] 778 | [1] 706 | [1] 636 | [1] 569 | [1] 499 | [1] 322 | [1] $252 |
| $10,000 | 1,530 | 1,495 | 1,190 | 1,120 | 1,048 | 978 | 905 | 835 | 620 | 550 |
| $12,500 | 2,059 | 2,024 | 1,628 | 1,558 | 1,463 | 1,393 | 1,309 | 1,239 | 1,024 | 954 |
| $15,000 | 2,630 | 2,595 | 2,095 | 2,025 | 1,930 | 1,860 | 1,765 | 1,695 | 1,435 | 1,365 |
| $17,500 | 3,249 | 3,214 | 2,604 | 2,534 | 2,416 | 2,346 | 2,233 | 2,163 | 1,903 | 1,833 |
| $20,000 | 3,915 | 3,880 | 3,135 | 3,065 | 2,948 | 2,878 | 2,760 | 2,690 | 2,385 | 2,315 |
| $25,000 | 5,420 | 5,385 | 4,310 | 4,240 | 4,100 | 4,030 | 3,890 | 3,820 | 3,470 | 3,400 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 9f.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER THE GRANTING OF A GENERAL NONREFUNDABLE TAX CREDIT OF $50 PER RETURN

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $88 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 441 | [1] 322 | [1] $272 | [1] $208 | [1] $158 | [1] $98 | [1] $48 | | |
| $6,000 | [1] 681 | [1] 631 | [1] 484 | [1] 434 | [1] 362 | [1] 312 | [1] 245 | [1] 195 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,050 | [1] 848 | [1] 798 | [1] 706 | [1] 656 | [1] 569 | [1] 519 | [1] 322 | [1] $272 |
| $10,000 | 1,530 | 1,480 | 1,190 | 1,140 | 1,048 | 998 | 905 | 855 | 620 | 570 |
| $12,500 | 2,059 | 2,009 | 1,628 | 1,578 | 1,463 | 1,413 | 1,309 | 1,259 | 1,024 | 974 |
| $15,000 | 2,630 | 2,580 | 2,095 | 2,045 | 1,930 | 1,880 | 1,765 | 1,715 | 1,435 | 1,385 |
| $17,500 | 3,249 | 3,199 | 2,604 | 2,554 | 2,416 | 2,366 | 2,233 | 2,183 | 1,903 | 1,853 |
| $20,000 | 3,915 | 3,865 | 3,135 | 3,085 | 2,948 | 2,898 | 2,760 | 2,710 | 2,385 | 2,335 |
| $25,000 | 5,420 | 5,370 | 4,310 | 4,260 | 4,100 | 4,050 | 3,890 | 3,840 | 3,470 | 3,420 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

TABLE 9g.—FEDERAL INDIVIDUAL INCOME TAX BURDEN UNDER PRESENT LAW AND UNDER THE GRANTING OF A $50 ($100 FOR JOINT RETURNS) GENERAL NONREFUNDABLE TAX CREDIT

SINGLE PERSON AND MARRIED COUPLE WITH NO, 1, 2, AND 4 DEPENDENTS (ASSUMING DEDUCTIBLE PERSONAL EXPENSES OF 15 PERCENT OF INCOME)

| | Tax liability | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Single person | | Married couple with no dependents | | Married couple with 1 dependent | | Married couple with 2 dependents | | Married couple with 4 dependents | |
| Adjusted gross income | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative | Under present law | Under the alternative |
| $3,000 | [1] $138 | [1] $88 | [1] $28 | | | | | | | |
| $5,000 | [1] 491 | [1] 441 | [1] 322 | [1] $222 | [1] $208 | [1] $108 | [1] $98 | | | |
| $6,000 | [1] 681 | [1] 631 | [1] 484 | [1] 384 | [1] 362 | [1] 262 | [1] 245 | [1] $145 | [1] $28 | |
| $8,000 | [1] 1,100 | [1] 1,050 | [1] 848 | [1] 748 | [1] 706 | [1] 606 | [1] 569 | [1] 469 | [1] 322 | [1] $222 |
| $10,000 | 1,530 | 1,480 | 1,190 | 1,090 | 1,048 | 948 | 905 | 805 | 620 | 520 |
| $12,500 | 2,059 | 2,009 | 1,628 | 1,528 | 1,463 | 1,363 | 1,309 | 1,209 | 1,024 | 924 |
| $15,000 | 2,630 | 2,580 | 2,095 | 1,995 | 1,930 | 1,830 | 1,765 | 1,665 | 1,435 | 1,335 |
| $17,500 | 3,249 | 3,199 | 2,604 | 2,504 | 2,416 | 2,316 | 2,233 | 2,133 | 1,903 | 1,803 |
| $20,000 | 3,915 | 3,865 | 3,135 | 3,035 | 2,948 | 2,848 | 2,760 | 2,660 | 2,385 | 2,285 |
| $25,000 | 5,420 | 5,370 | 4,310 | 4,210 | 4,100 | 4,000 | 3,890 | 3,790 | 3,470 | 3,370 |

[1] Computed without reference to the tax tables for returns with adjusted gross income under $10,000.

[Whereupon, at 12:10 p.m., the committee was adjourned, subject to the call of the Chair.]



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