FROM:
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ADDRESS OF M. MONROE KIMBREL

President of The American Bankers Association, before a Joint Dinner Meeting of the Robert Morris Associates and the Augusta Chapter of Certified Public Accountants, Augusta Country Club, Augusta, Georgia, Tuesday Evening, November 27, 1962. Mr. Kimbrel is president of the First National Bank, Thomson, Georgia.

It is a privilege to be asked to make a few remarks to this group. The contribution of accountants to the development of sound and efficient business operations is indeed great, and perhaps nowhere is it better illustrated than in the field of commercial banking. As managers of the general public's money, bankers have a special interest in maintaining the strictest and highest standards of accounting practice. As lenders to firms in all size groups and in every phase of business activity, we also have a vital interest in assuring that our customers maintain high standards. This is important not only in the sound management of their own firms, but also in allowing us to appraise their operations accurately and to be of maximum help in accommodating their credit needs.

You have contributed greatly to the improvement of accounting practices among our customers, and for this we are grateful. For our own part, we are making a number of attempts, through The American Bankers Association, to promote improved accounting procedures for commercial banks. Along these lines, our current efforts include the preparation of a study concerning standards for bank general ledger accounts. In the process of conducting this study, we have drawn generously from the members of your profession. We also are grateful for this assistance.

Tonight I would like to offer a few observations concerning a subject which seems to be troubling a number of economists, businessmen, and public officials--the rate of our nation's economic growth and the need for improvement in that rate.

Economic growth is a complex subject, and I think there is fairly general agreement that growth reflects a wide variety of factors, some of which are responsive to government influence and control, and some of which are not. Nevertheless, attention in recent months has centered on the question of a broad tax cut as a stimulant to long-range growth. The President has promised that he will submit a tax-reduction proposal when the new Congress convenes. Administration officials recently have confirmed that a major tax-reduction proposal will be submitted in January despite the substantial budget deficit estimated for this fiscal year and despite the fact that government spending programs are expected to show further increases during the next fiscal year.

In considering the President's proposal, the first question to be resolved is whether tax reduction is the right medicine for the signs of sluggishness evidenced by our economy in recent years. If we can agree--and I think there is general agreement on this point--that the economy stands in need of at least moderate stimulus, the issue narrows down to what stimulus should be applied. Specifically, the question is whether tax reduction should be preferred over heavier federal spending or easier credit policies. In my judgment, the answer to this question should be "yes."

There are several reasons behind this answer, but the basic one is that neither easier credit policy nor heavier federal spending would be successful, in the long run, in improving our current rate of economic growth. The combination of increased spending and easier money could contribute to a short-term acceleration in economic output and fuller utilization of our economic resources. Of this there is little doubt. But would such policies add to the longer-range growth potential of our economy? I think not.

In fact, such policies could be seriously damaging to our long-term growth prospects. There is mounting evidence that the persistent advance in federal expenditures has served as a major deterrent to economic growth in this country.

Therefore, the suggestion that a sluggish growth rate should be corrected by still further increases in federal spending strikes me as being particularly inappropriate. Such a solution, it seems to me, would not be unlike the injection of a drug into a patient already suffering from previous excessive doses.

If we are to shape federal financial policies in the months ahead with the deliberate objective of enhancing our potential for long-term expansion in employment, output, and over-all growth, then our policy actions must have distinct long-range implications. What is needed is not just a policy to promote expansion on a temporary basis, but rather policies which will foster an environment in which the growth-inducing qualities inherent in a free-enterprise economy permanently may be unleashed.

Now, as always, the process of economic growth requires the existence of incentives--incentives for investment, for innovation, for risk-taking, and for production. The strength of these incentives is of fundamental importance in influencing the rate of economic growth. If these incentives are weakened unduly by the existence of excessive tax rates, the process of economic growth inevitably suffers. In my judgment, it is so suffering now.

Taxation is only one of the factors affecting the strength of private incentive for investment and enterprise. Yet it is a major factor, and it is a factor which is subject to our direct and immediate control. A properly structured reduction in tax rates at this time would contribute significantly to the strengthening of private incentive, on which the rate of economic growth is so heavily dependent, and would represent a major step toward improving the climate for economic growth.

The question inevitably is raised as to whether we can afford a major tax cut at this time--particularly in the light of prospects for a $7.8-billion budget deficit in the 1963 fiscal year. The answer to this question, it seems to me, is also yes--provided the tax cut is properly timed and accompanied by strict control over federal spending.

(More)

Some observers have refused to endorse the proposal for a tax cut unless it is accompanied by an equivalent reduction in federal spending. I sympathize with the sentiments underlying this view, but I cannot fail to point out that it falls somewhat short of a realistic approach to a vital question of public policy. Moreover, this view also seems to be based on the assumption that the relationship between federal revenues and tax rates is far more rigid than actually is the case. Even with fixed tax rates, federal revenues tend to show substantial gains as the economy follows its upward growth trend.

Over the past decade, these gains have averaged more than $3-billion a year. Consequently, a major reduction in federal taxes, scheduled to take effect gradually over a period of from three to five years, need occasion no significant reduction in federal revenues at all. In other words, losses of revenue from tax reductions would be roughly offset by the gains which normally accrue as a result of expanding production and incomes. If federal spending can be held constant, therefore, there need be no substantial change in the government's fiscal position as a result of a tax cut. This suggests clearly that we can afford a major tax cut if we can succeed in holding the line against increased federal outlays.

There is an element of wishful thinking in the notion that, by resisting a tax cut not accompanied by reductions in federal spending, we are acting in the interest of fiscal soundness. Under current and prospective economic conditions, it is difficult to believe that gradual increases in federal revenues would be allowed to result in an improved budget position. With expansive economic policies being emphasized, the odds are clearly that federal spending would rise by at least as much as, and probably more than, the increased revenues accompanying economic growth. If this is true, it is reasonable to conclude that the budget impact of providing an expansive economic influence through tax reduction while holding spending constant is likely to be as small as--and probably would be smaller than--a policy of increased federal spending with tax rates held unchanged. Even if the budget impact of the alternative policies were roughly the same, the course of tax reduction offers clear-cut long-term advantages which would not flow from increased federal spending.

I conclude, therefore, that tax reduction is not only a desirable objective of public policy at this time, but also that major reductions in rates can be implemented within the bounds of fiscal prudence. This will require that rate reductions be "phased in" over a number of years, and that federal spending be held constant over a protracted period.

Although Secretary of the Treasury Dillon recently has pointed to the need for a "phasing in" of tax reduction, I regret that in some quarters the necessity for this approach has been minimized. While it is true that rate reductions totaling up to $10- to $12-billion appear to be in order, it is distressing to note the frequent implication that we must accomplish this reduction in a single major cut. The fiscal consequences of such a cut could be a major strain on foreign confidence in our financial integrity and could generate concern over the future of the dollar. Moreover, the very large budget deficit which would occur if tax reduction is concentrated in one step could prove seriously damaging to domestic business confidence and perhaps nullify the expansive influences which actually are sought by rate revision.

I would stress that the major aim of tax revision should be to secure a more favorable environment for long-term economic expansion. Therefore, there is no good reason why the transition to lower rates should not be gradual, orderly, and free of a sense of urgency for short-range stimulus.

Second, I regret that the emphasis--at least in some circles--has been on tax revision as a stimulus to private consumer expenditures. While a tax reduction can and should be designed to reflect equity considerations, the basic need is for promoting a high rate of investment in business and industry, on which productivity and the rate of economic growth are so heavily dependent. The argument that investment spending will not rise until consumer demand is strengthened is not, in my judgment, a valid one. And I would hope that the structure of the tax cut to be proposed by the President will not be based on this premise.

Finally, I am convinced that a tax cut must, if it is to be implemented within the bounds of fiscal prudence, be accompanied by strict controls which prevent further increases in federal spending over the next several years. Consequently, general indications that such restraint is looked upon as "unrealistic" or "impossible" by the Administration are a source of considerable concern to me.

I believe firmly that a tax cut could prove of major and lasting benefit to our economy. It is foolish to believe, however, that these benefits are to be had just for the asking. A tax cut designed specifically and predominantly to promote higher consumption, or a major tax cut the budget effects of which are concentrated in a single calendar year, or a tax cut accompanied by still further increases in federal spending--any of these would, in my judgment, be more injurious than beneficial to our national economy. In each case they might brighten temporarily the foliage--but they would sap the deeper roots--of our economic system.

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