

FROM:
THE AMERICAN BANKERS ASSOCIATION
THE NEWS BUREAU
George J. Kelly, Director
12 East 36 St., New York 16, N. Y.

RELEASED AT 11 A.M.
WEDNESDAY, APRIL 17, 1963

ADDRESS OF M. MONROE KIMBREL

President of The American Bankers Association, before the 71st Annual Convention of the Georgia Bankers Association, Dinkler Plaza Hotel, Atlanta, Wednesday Morning, April 17, 1963. Mr. Kimbrel is chairman of the board, First National Bank, Thomson, Ga.

Joining you today is indeed a real pleasure for me. As the song says, "Wherever you wander there's no place like home." After traveling extensively for The American Bankers Association I am glad to return to this podium. Although it seems like such a short time ago that I addressed this group as president of the Georgia Bankers Association, when I stopped to figure it out the other day I realized that it has been seven years.

In my travels across the country I have been hearing more and more favorable comments about the progress that is being made here in Georgia and what an important part the Georgia bankers are playing in this growth. I would like to comment further on this progress, but I believe these next few minutes could be more profitably spent discussing the most important economic issue of 1963. Naturally, I am referring to the tax proposals now being debated in Congress.

The American Bankers Association has long urged tax reduction as one of the best methods for promoting long-term economic growth. We do not believe that is a cure-all. We do not believe tax cuts alone will guarantee economic growth. But we do consider it a basic essential.

At the same time the A.B.A. has insisted that a tax cut be accompanied by fiscal prudence. In short, we have testified before the House Ways and Means Committee that unless spending can be held to the 1963 level as estimated by the President in his January budget message, the tax cut should be rejected

Translated into figures, we believe that the President's administrative budget should be trimmed by about \$4.5 billion or five per cent. This reduction would put the budget for fiscal 1964 at the same level as estimated expenditures for fiscal 1963.

Unless these cuts are made we will be facing a federal budget deficit of almost \$12 billion--the highest planned deficit in peacetime history. And I would quickly add that in most cases budget deficits are underestimated. If true in this case we would be flirting with a deficit of \$15 billion or more. This could easily prove to be unmanageable and could seriously threaten the strength of the dollar.

Some observers have been arguing that the budget should be cut by as much as \$15 billion--in other words the cut in spending should more than offset the tax reductions. We reject this thinking for several reasons. First, if spending next year is reduced by the amount of the tax cut it could have the effect of negating the good that would result from a tax cut. Secondly, some essential programs might have to be reduced or eliminated. And, third, as a practical matter we don't think it is very likely that Congress will be willing to cut that deeply into expenditures.

At the other extreme there are those who favor an increase in spending coupled with the tax reduction. They believe this is the only way to solve the unemployment problem. We also reject this view. The experience in the 1930's proved that Government spending programs alone cannot eliminate unemployment. Moreover, we believe a deficit of this size would undermine international confidence in the dollar at a time when we are confronted with a chronic deficit in our balance of payments.

We think our approach--between the extremes--is both practical and prudent. No one likes deficits but in this case we feel the deficit, if held

(More)

within the bounds of fiscal prudence, is the price we must pay to spur long-term economic growth. If spending is held constant during the three-year transition to the lower tax rates, the probable increase in revenues stimulated by the faster economic growth could be used to reduce--and within perhaps two years could eliminate--the deficits stemming from the tax cuts.

You may wonder why I am spending so much time discussing expenditures without touching on the specific proposals contained in the President's tax recommendations. Actually it is a matter of timing. Let's look at the schedule.

As you know, all tax legislation must originate in the House Ways and Means Committee. This Committee held hearings for close to two months. After receiving testimony from Administrative witnesses, the hearings were opened to groups requesting to testify.

The Committee is now holding executive sessions to decide what shape the tax bill should take. After these sessions, the committee's staff will draft a bill. The committee will then hold additional sessions to go over the draft and the bill, in all probability, will be redrafted.

The best estimate at this time is that the House Ways and Means Committee will not report a bill to the floor of the House until sometime in June. Debate on the bill could last a week or more so if the bill is reported early in June, it will be mid-June before the House takes final action.

The Senate Finance Committee will then start its own hearings. Senator Byrd, chairman of the Senate Finance Committee, has stated that he will hold extensive hearings. These hearings could easily run for seven or eight weeks. That means that it will be late August or September before the Committee can start drafting its version of the bill and the same process of drafting and redrafting will follow in the Senate.

(More)

If the House and Senate pass different versions of the bill--and that is very likely--they will have to form a conference committee to iron out the differences.

With this schedule it is easy to see that it may well be late in the fall or possibly 1964 before a tax law is enacted. I do not quarrel with this process. The issue is a vital one and one which will exert an influence on the course of our economy for years to come. Therefore, I believe the deliberations should be thorough.

But I recited this chronology to you for an entirely different reason. Our position, which was taken after an exhaustive study by a special committee of bankers, emphasizes two points. We favor a tax reduction, and although we have some specific recommendations on the President's proposal which I will mention later, we feel the tax reduction portion of the Administration's package is basically sound. The second point is that we are urging that the line be held on spending.

As far as we are concerned, these two considerations should be part and parcel of the same tax package. However, the legislative process does not work that way. Expenditures are not tied to revenues. We suggested, when testifying before the House Ways and Means Committee, that the committee attach a rider to the tax bill which would establish a Congressional ceiling on spending. Even if the committee decided to adopt an approach similar to this, it wouldn't become effective until the tax bill did. That might be very late to start thinking about cutting down on proposed spending.

The simple facts of the matter are these. The tax bill will go through the legislative process and will reach the final stages next fall. But the appropriations process is on a different time table. In fact Congress is now considering many appropriation bills. Some are already well advanced

(More)

in the legislative process. If we wait until the tax bill is hammered into its final form and then comment on it, we may be entering an academic discussion. Our position may be outmoded by the facts. Briefly stated, we cannot sit back and wait for the final version of the bill. If we are to make a contribution to this public debate it must be now while the appropriation bills are being considered. Every time an appropriation bill authorizing increased spending goes through Congress, our position is that much further watered down.

One of the reasons I decided to discuss this subject today is that Congress is now recessed. Now is a good time for us to talk to members of Congress and give them our views on spending programs.

For example, we should commend our own Senator Richard B. Russell for the outstanding job he did last week in leading the fight on the Senate floor against an increase in appropriations for the Nike-Zeus anti-missile batteries. The Senator, who, as you know, heads the Armed Services Committee, had the backing of Secretary of Defense McNamara in the fight. Senator Russell said it would be an "enormous waste" to put the system into operation.

Those pressure groups which urge increased spending for their own pet projects and interests will not hesitate to make their views known. We cannot afford to sacrifice our position by default. We must be as forceful as they are.

The Administration claims that the budget is as tight as it could possibly be and spokesmen for the Administration challenge critics to be specific about where the cuts should be made. This argument is open to question. Any item in the budget could be cut if Congress were determined to do so.

Senator A. Willis Robertson, chairman of the Senate Banking Committee, said, in a speech given on the floor of the Senate on March 7, "Taking defense and non-defense spending together, my preliminary study of the budget indicates it

(More)

is perfectly feasible, giving all due consideration to national defense and welfare, to reduce the budget by at least \$6 billion in fiscal 1964."

You know yourselves that if you made up your mind to cut five per cent out of your bank's operating budget you would find ways to do it. Moreover, if it were your responsibility to reduce expenditures you would be in the best position to decide where the cuts should be made - you wouldn't want someone else doing your job for you.

It is the same with the Federal budget. For example, the President has already cut his own foreign aid request by \$420 million below what he had had estimated in his January budget message. He stated in his foreign aid message to Congress on April 2, (and I quote) "close review has indicated a number of reductions that can be made in the original budget estimated for economic and military assistance without serious damage to national interest."

With the reduced estimate the President is still requesting \$600 million more for the foreign aid program than was authorized for fiscal 1963. General Clay, who headed a committee which made an intensive study of foreign aid, suggested that the amount could be reduced even further. Congress may well trim this item as it has in the past.

For those who want specifics on where expenditures could be reduced, the President, therefore, has supplied an excellent example. Incidentally, this foreign aid reduction is close to 10 per cent of the amount the President/ originally asked for this purpose; and at the same time it is close to 10 per cent of the amount the total budget would have to be reduced to keep spending on a level with fiscal 1963. Moreover, a reduction of five per cent across the board is all that is needed to keep spending constant. Therefore, the reduction in foreign aid is more than a good start.

There are other examples. On April 2 the House voted to cut appropriations for the Interior Department by close to \$93 million. This was a cut of 10 per cent from the budget estimate.

(More)

On April 4 the House of Representatives also reduced by \$150 million the appropriations bill covering expenditures for the Treasury Department, the Post Office and the Executive Office of the President.

I don't think the problem is finding ways to cut the budget. I am convinced that the basic need is to assure Congressmen that they have our full support when it comes to making cutbacks in projected Federal spending. While some areas of the budget can stand a bigger slice than others, I don't think we can afford to consider any areas as sacrosanct.

While expressing our views on the matter of spending, we will be reserving our right to comment on the specifics of the tax bill when it is presented to Congress.

As those of you know who read accounts of the A.B.A.'s testimony before the House Ways and Means Committee we have already put some of our recommendations on the record.

In shortened form here are a few of the suggestions we made:

1. That a 50 per cent ceiling be placed on the marginal personal income tax rate. This would cost only \$175 million in revenues and would, we believe, lead to a significant increase in revenues in time because of the incentive and investment that would be stimulated.
2. That the corporate tax rate be reduced to 42 per cent or at least to 45 per cent. We believe this reduction should be spread over a longer period and that the reduction would spur investment activity and generate enough revenues to offset the tax cut.
3. That the Congress reject the four proposals which would (1) place a five per cent floor on itemized personal deductions, (2) place a capital gains tax on the appreciation in the value of property at the time of death or gift, (3) tax lump-sum distributions from pension and profit-sharing plans as ordinary income, and (4) repeal the dividend credit and exclusion.

(More)

The tax reductions, when considered apart from the reform measures, are basically sound and well structured. The upper income groups would get a tax reduction of 21 per cent versus a higher 28 per cent reduction for those in the lower groups. But when the structural reforms are considered along with the reduction, the upper-income groups would get a tax reduction of nine per cent while the lower-income groups would receive a 39 per cent reduction.

We will, of course, continue to make specific recommendations on various aspects of the tax proposal as it moves through the legislative channels.

By way of summing up, I want to emphasize that our efforts at this time can best be spent in urging Congress to cut down on projected budget expenditures.

The threat of a recession, which some have used as an argument to fend off those advocating economy, has been diminishing in recent weeks.

Corporate profits in the fourth quarter of 1962 were higher than most businessmen expected and the trend looks as though it will continue. With this prospect capital investments are edging up. Consumers are still optimistic and spending freely. It was also encouraging to see the drop in unemployment last month. In view of these factors, I don't think we are going to see a slow-down in business activity in the near future.

This gives us all the more reason to insist on a program of fiscal prudence at this time. Remember, we have long advocated tax reduction as a way to unshackle the economy. We do not view tax reduction as a one-shot boost to the economy - we are looking at the longer run performance. Yet, the health of the economy is a blessing because it gives us time to consider the tax question without forcing us to make any rash moves.

(More)

Again, in closing, I want to repeat that the most significant role we can now play in achieving a tax cut within the bounds of fiscal prudence is to exert every influence at our command to urge Congress to hold the line on projected government spending. I hope you will take advantage of the Easter recess to get in touch with your Congressmen and let them know that they have your full support when it comes to cutting unnecessary budgetary requests. Thank you.

#