John F. Kennedy

Address to the Economic Club of New York

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Mr. Trippe, Mr. Rockefeller, General Clay, gentlemen:

I feel tonight somewhat like I felt when I addressed in 1960 the Houston Ministers Conference on the separation of church and state. But I am glad to have a chance to talk to you tonight about the advantages of the free enterprise system.

Less than a month ago, this nation reminded the world that it possessed both the will and the weapons to meet any threat to the security of free men. The gains we have made will not be given up and the course that we have pursued will not be abandoned. But in the long run, that security will not be determined by military or diplomatic moves alone. It will be affected by the decisions of finance ministers, as well as by the decisions of Secretaries of State and Secretaries of Defense; by the deployment of fiscal and monetary weapons, as well as by military weapons; and, above all, by the strength of this nation's economy, as well as by the strength of our defenses.

You will recall that Chairman Khrushchev has said that he believed that the hinge of world history would begin to move when the Soviet Union out-produced the United States. Therefore, the subject to which we address ourselves tonight concerns not merely our own well-being, but also very vitally the defense of the free world.

America's rise to world leadership in the century since the Civil War has reflected more than anything else our unprecedented economic growth. Interrupted during the decade of the 30s, the vigorous expansion of our economy was resumed in 1940 and continued for more than 15 years thereafter. It demonstrated for all to see the power of freedom and the efficiency of free institutions. The economic health of this nation has been, and is now, fundamentally sound.

But a leading nation, a nation upon which all depend, not only in this country but around the world, cannot afford to be satisfied, to look back, or to pause. On our strength and growth depends the strength of others, the spread of free world trade and unity, and continued confidence in our leadership and our currency. The underdeveloped countries are dependent upon us for the sale of their primary commodities and for aid to their struggling economies. In short, a prosperous and growing America is important not only to Americans, it is -- as the spokesman for 20 Western nations in the Organization for Economic Cooperation and Development, as he stressed this week -- of vital importance to the entire Western World.

In the last two years we have made significant strides. Our gross national product has risen eleven percent, while inflation has been arrested. Employment has been increased by one-point-three million jobs. Profits, personal income, living standards -- all are setting new records. Most of the economic indicators for this quarter are up and the prospects are for further expansion in the next quarter. But we must look beyond the next quarter, or the last quarter, or even the last two years. For we can and must do better, much better than we've been doing for the last five-and-a-half years.

This economy is capable of producing, without strain, 30 to 40 billion dollars more than we are producing today. Business earnings could be seven to eight billion higher than they are today. Utilization of existing plant and equipment could be much higher -- and, if it were, investment would rise. We need not accept an unemployment rate of five percent or more, such as we have had for 60 out of the last 61 months. There is no need for us to be satisfied with a rate of growth that keeps good men out of work and good capacity out of use.

The Economic Club of New York is, of course, familiar with these problems. For, in this state, the rate of insured unemployment has been persistently higher than the national average, and the increases in personal income and employment have been slower here than [in] the nation as a whole. You have seen the tragedy of chronically depressed areas upstate, of unemployed young people — and I think this might be one of our most serious national problems, unemployed young people, those under 20. One out of four are unemployed -- particularly those in the minority groups, roaming the streets of New York and our other great cities -- and others on relief at an early age, with the prospect that in this decade we will have between seven and eight million school dropouts, unskilled, coming into the labor market, at a time when the need for unskilled labor is steadily diminishing. And I know you share my conviction that, proud as we are of its progress, this nation's economy can and must do even better than it has done in the last five years. Our choice, therefore, boils down to one of: doing nothing, and thereby risking a widening gap between our actual and potential growth in output, profits, and employment -- or taking action, at the federal level, to raise our entire economy to a new and higher level of business activity.

If we do not take action, those who have the most reason to be dissatisfied with our present rate of growth will be tempted to seek shortsighted and narrow solutions -- to resist automation, to reduce the work week to 35 hours or even lower, to shut out imports, or to raise prices in a vain effort to obtain full capacity profits on under-capacity operations. But these are all self-defeating expedients which can only restrict the economy, not expand it.

There are a number of ways by which the federal government can meet its responsibilities to aid economic growth. We can and must improve American education and technical training. We can and must expand civilian research and technology. One of the great bottlenecks for this country's economic growth in this decade will be the shortages of doctorates in mathematics, engineering, and physics -- a serious shortage with a great demand and an undersupply of highly trained manpower. We can and must step up the development of our natural resources.

But the most direct and significant kind of federal action aiding economic growth is to make possible an increase in private consumption and investment demand -- to cut the fetters which hold back private spending. In the past, this could be done in part by the increased use of credit and monetary tools, but our balance of payments situation today places limits on our use of those tools for expansion. It could also be done by increasing federal expenditures more rapidly than necessary, but such a course would soon demoralize both the government and our economy. If government is to retain the confidence of the people, it must not spend more than can be justified on grounds of national need or spent with maximum efficiency. And I shall say more on this in a moment.

The final and best means of strengthening demand among consumers and business is to reduce the burden on private income and the deterrents to private initiative which are imposed by our present tax system -- and this Administration pledged itself last summer to an across-the-board, top-to-bottom cut in personal and corporate income taxes to be enacted and become effective in 1963.

I'm not talking about a "quickie" or a temporary tax cut, which would be more appropriate if a recession were imminent. Nor am I talking about giving the economy a mere shot in the arm, to ease some temporary complaint. I am talking about the accumulated evidence of the last five years that our present tax system, developed as it was, in good part, during World War II to restrain growth, exerts too heavy a drag on growth in peace time; that it siphons out of the private economy too large a share of personal and business purchasing power; that it reduces the financial incentives for personal effort, investment, and risk-taking. In short, to increase demand and lift the economy, the federal government's most useful role is not to rush into a program of excessive increases in public expenditures, but to expand the incentives and opportunities for private expenditures.

Under these circumstances, any new tax legislation -- and you can understand that under the comity which exists in the United States Constitution whereby the Ways and Means Committee in the House of Representatives have the responsibility of initiating this legislation, that the details of any proposal should wait on the meeting of the Congress in January.

But you can understand that, under these circumstances, in general, that any new tax legislation enacted next year should meet the following three tests:

First, it should reduce the net taxes by a sufficiently early date and a sufficiently large amount to do the job required. Early action could give us extra leverage, added results, and important insurance against recession. Too large a tax cut, of course, could result in inflation and insufficient future revenues -- but the greater danger is a tax cut too little, or too late, to be effective.

Second, the new tax bill must increase private consumption, as well as investment. Consumers are still spending between 92 and 94 percent on their after-tax income, as they have every year since 1950. But that after-tax income could and should be greater, providing stronger markets for the products of American industry. When consumers purchase more goods, plants use more of their capacity, men are hired instead of laid-off, investment increases, and profits are high.

Corporate tax rates must also be cut to increase incentives and the availability of investment capital. The government has already taken major steps this year to reduce business tax liability and to stimulate the modernization, replacement, and expansion of our productive plant and equipment. We have done this through the 1962 investment tax credit and through the liberalization of depreciation allowances -- two essential parts of our first step in tax revision -- which amounted to a ten percent reduction in corporate income taxes worth 2.5 billion dollars. Now we need to increase consumer demand to make these measures fully effective -- demand which will make more use of existing capacity and thus increase both profits and the incentive to invest. In fact, profits after taxes would be at least 15 percent higher today if we were operating at full employment.

For all these reasons, next year's tax bill should reduce personal as well as corporate income taxes: for those in the lower brackets, who are certain to spend their additional take-home pay, and for those in the middle and upper brackets, who can thereby be encouraged to undertake additional efforts and enabled to invest more capital.

Third, the new tax bill should improve both the equity and the simplicity of our present tax system. This means the enactment of long-needed tax reforms, a broadening of the tax base, and the elimination or modification of many special tax privileges. These steps are not only needed to recover lost revenue and thus make possible a larger cut in present rates, they are also tied directly to our goal of greater growth. For the present patchwork of special provisions and preferences lightens the tax loads of some only at the cost of placing a heavier burden on others. It distorts economic judgments and channels undue amounts of energy into efforts to avoid tax liability. It makes certain types of less productive activity more profitable than other more valuable undertakings. All this inhibits our growth and efficiency, as well as considerably complicating the work of both the taxpayer and the Internal Revenue Service.

These various exclusions and concessions have been justified in the past as a means of overcoming oppressively high rates in the upper brackets, and a sharp reduction in those rates -- accompanied by base-broadening, loophole-closing measures -- would properly make the new rates not only lower, but also more widely applicable. Surely this is more equitable on both counts.

Those are the three tests which the right kind of bill must meet -- and I am confident that the enactment of the right bill next year will in due course increase our gross national product by several times the amount of taxes actually cut. Profit margins will be improved, and both the incentive to invest and the supply of internal funds for investment will be increased. There will be new interest in taking risks, in increasing productivity, in creating new jobs and new products for long-term economic growth.

Other national problems, moreover, will be aided by full employment. It will encourage the location of new plants in areas of labor surplus -- and provide new jobs for workers that we are retraining -- and facilitate the adjustment which will be necessary under our new trade expansion bill, and reduce a number of government expenditures.

It will not, I'm confident, revive an inflationary spiral or adversely affect our balance of payments. If the economy today were operating close to capacity levels with little unemployment, or if a sudden change in our military requirements should cause a scramble for men and resources, then I would oppose tax reductions as irresponsible and inflationary -- and I would not hesitate to recommend a tax increase, if that were necessary. But our resources and manpower are not being fully utilized, the general level of prices has been remarkably stable, and increased competition -- both at home and abroad -- along with increased productivity, will help keep both prices and wages within appropriate limits.

The same is true of our balance of payments. While rising demand will expand imports, new investment in more efficient productive facilities will aid exports, and a new economic climate could both draw capital from abroad and keep capital here at home. It will also put us in a better position, if necessary, to use monetary tools to help our international accounts. But most importantly, confidence in the dollar in the long run rests on confidence in America, in our ability to meet our economic commitments and reach our economic goals. In a worldwide conviction that we are not drifting from recession to recession with no answer, the substantial improvement in our balance of payments position in the last two years makes it clear that nothing could be more foolish than to restrict our growth merely to minimize that particular problem, because a slowdown in our economy will feed that problem rather than diminish it. On the contrary, European governmental and financial authorities with almost total unanimity, far from threatening to withdraw gold, have urged us to cut taxes in order to expand our economy, attract more capital, and increase confidence in our future.

But what concerns most Americans about a tax cut, I know, is not the deficit in our balance of payments but the deficit in our federal budget. When I announced in April of 1961 that this kind of comprehensive tax reform would follow the bill enacted this year, I had hoped to present it in an atmosphere of a balanced budget.

But it has been necessary to augment sharply our nuclear and conventional forces, to step up our efforts in space, to meet the increased cost of servicing the national debt and meeting our obligations -- established by law -- to veterans. These expenditure increases, let me stress, constitute practically all of the increases which have occurred under this Administration, the remainder having gone to fight the recession we found in industry -- mostly through the Supplemental Unemployment Compensation Bill -- and in agriculture.

We shall, therefore, neither postpone our tax cut plans nor cut into essential national security programs. This Administration is determined to protect America's security and survival, and we are also determined to step up its economic growth. And I think we must do both.

Our true choice is not between tax reduction, on the one hand, and the avoidance of large federal deficits on the other. It is increasingly clear that no matter what party is in power, so long as our national security needs keep rising, an economy hampered by restrictive tax rates will never produce enough revenues to balance our budget -- just as it will never produce enough jobs or enough profits. Surely the lesson of the last decade is that budget deficits are not caused by wild-eyed spenders but by slow economic growth and periodic recessions, and any new recession would break all deficit records.

In short, it is a paradoxical truth that tax rates are too high today and tax revenues are too low and the soundest way to raise the revenues in the long run is to cut the rates now. The experience of a number of European countries and Japan have borne this out. This country's own experience with tax reduction in 1954 has borne this out. And the reason is that only full employment can balance the budget, and tax reduction can pave the way to that employment. The purpose of cutting taxes now is not to incur a budget deficit, but to achieve the more prosperous, expanding economy which can bring a budget surplus.

I repeat: our practical choice is not between a tax-cut deficit and a budgetary surplus. It is between two kinds of deficits: a chronic deficit of inertia, as the unwanted result of inadequate revenues and a restricted economy, or a temporary deficit of transition, resulting from a tax cut designed to boost the economy, increase tax revenues, and achieve -- and I believe this can be done -- a budget surplus. The first type of deficit is a sign of waste and weakness; the second reflects an investment in the future.

Nevertheless, as Chairman Mills of the House Ways and Means Committee pointed out this week, the size of the deficit is to be regarded with concern, and tax reduction must be accompanied, in his words, by "increased control of the rises in expenditures." This is precisely the course we intend to follow in 1963.

At the same time as our tax program is presented to the Congress in January, the federal budget for fiscal 1964 will also be presented. Defense and space expenditures will necessarily rise in order to carry out programs which are demanded and are necessary for our own security, and which have largely been authorized by Members in both parties of the Congress with overwhelming majorities. Fixed interest charges on the debt also rise slightly. But I can tell you now that the total of all other expenditures combined will be held at approximately its current level.

This is not an easy task. During the past nine years, domestic civilian expenditures in the national government have risen at an average rate of more than seven-and-one-half percent. State and local government expenditures have risen at an annual rate of nine percent. Expenditures by the New York State government, for example, have risen in recent years at the rate of roughly ten percent per year. At a time when government pay scales have necessarily risen -- and I take New York just as an example when our population and pressures are growing and the demand for services and state aid is thus increasing, next year's federal budget, which will hold domestic outlays at their present level, will represent a genuine effort in expenditure control. This budget will reflect, among other economies, a 750 million dollar reduction in the postal deficit. It will reflect a savings of over 300 million dollars in the storage costs of surplus feed grain stocks -- and as a result of the feed grain bill of 1961, we will have two-thirds less in storage than we would otherwise have had in January 1963 -- and a savings of at least 600 million dollars from the cancellation of obsolete or unworkable weapons systems. Secretary McNamara is undertaking a cost reduction program expected to save three billion dollars a year in the Department of Defense, cutting down on duplication and closing down nonessential installations. Other agencies must do the same.

In addition, I have directed all heads of government departments and agencies to hold federal employment under the levels authorized by congressional appropriations, to absorb through greater efficiency a substantial part of this year's federal pay increase, to achieve an increase in productivity which will enable the same amount of work to be done by less people, and to refrain from spending any unnecessary funds that were appropriated by the Congress.

It should also be noted that the federal debt, as a proportion of our gross national product, has been steadily reduced in the last years. Last year the total increase in the federal debt was two percent -- compared to an eight percent increase in the gross debt of state and local governments. Taking a longer view, the federal debt today is 13 percent higher than it was in 1946, while state and local debt is 360 percent higher than it was in 1946 -- and private debt by over 300 percent. In fact, if it were not for federal financial assistance to state and local governments, the federal cash budget would show a surplus. Federal civilian employment, for example, is actually lower today than it was in 1952, while state and local government employment over the same period has increased 67 percent.

It is this setting which makes federal tax reduction both possible and appropriate next year. I do not underestimate the obstacles which the Congress will face in enacting such legislation. No one will be satisfied. Everyone will have his own approach, his own bill, his own reductions. A high order of restraint and determination will be required if the "possible" is not to wait on the "perfect." But a nation capable of marshaling these qualities in any dramatic threat to our security, is surely capable, as a great free society, of meeting a slower and more complex threat to our economic vitality. This nation can afford to reduce taxes, we can afford a temporary deficit -- but we cannot afford to do nothing. For on the strength of our free economy rests the hope of all free nations. We shall not fail that hope -- for free men and free nations must prosper and they must prevail.

Thank you.

