Mr. GORDON. I think it is very promising, with one qualification with which I am sure you would agree. I think it would be a mistake to think that measures of this kind would have a very significant effect on the U.S. economy in the short run. Negotiations of the sort you propose—multilateral negotiations, quite complex international negotiations—invariably take a considerable period of time to complete. So I think we ought to be realistic to expect that such negotiations, if we decide to enter them, would not have visible economic effects in the near future.

Representative REUSS. It is equally true, is it not, that the sooner you equip yourself to start negotiations, the sooner you complete them?

Mr. GORDON. Yes.

Chairman PATMAN. Senator Proxmire?

Senator PROXMIRE. The main thing I want to do, Dr. Heller, now that we have indicated that we are not wildly enthusiastic about the higher interest rates, I would like to relate that to the possibility of a tax cut.

You indicate in your statement that taxes and savings would be drawing $14 or $15 billion too much, from the economy which would have to be offset by additional investment and Government expenditures for full employment to be attained.

I presume this $14 to $15 billion indicates that a substantial tax cut would be necessary in order to correct this situation, but I presume it would be somewhat less than $14 to $15 billion, is that correct?

Dr. HELLER. Yes, it is, Senator. We would have to take into account not only the initial impact of the tax cut itself, but the multiplied effects, and the impact on inventory investment, and on investment in plant and equipment and in housing. So these numbers were not meant to suggest in any way, shape, or manner the size of any tax cut.

Senator PROXMIRE. Let me ask you about that multiplier. I won't say you have been quoted, but people have said that the economists on the Council of Economic Advisers indicate one specific multiplier; others say others. I understand from some competent economists that a tax cut of $10 billion would mean an increase in the GNP of $20 billion. Others say $25 billion. Would you have a rough estimate?

Dr. HELLER. It is extremely difficult to tie oneself down to a specific estimate in the absence of test-tube evidence. As was pointed out earlier, a tax cut would show up primarily as an increase in disposable income, quite undifferentiated from any other source of increase in income. In other words, it would not appear to most people as a special kind of income, labeled "Cut in Tax Liabilities." For the most part, it would simply show up as an increase in take-home pay. That touches off spending and re-spending.

Senator PROXMIRE. I understand the multiplier and I certainly agree.

Dr. HELLER. I am trying to get to a rough approximation of the magnitude, without suggesting that we are tied to any specific multiplier figure. Very conservatively estimated, the multiplier effect as such might be one and a half to two times the initial tax cut when it works through the spending stream and on into an increase in GNP.

Depending in part on the level of economic activity relative to capacity, there would be further magnification of the original figure,