through the impact which the higher levels of consumption may have on investment in inventories and plant and equipment. Depending on the conditions in the economy and a number of variables that are terribly hard to tie down, that would increase the total impact from 1½ or 2 to 2½ or 3 times the size of the initial tax cut—and under very favorable circumstances, even more. It depends in large part on conditions that exist at the particular moment the tax cut is made, and in what direction you are moving—that is, whether the economy is expanding, leveling off, or declining.

Senator PROXMIRE. It would vary on the kind of tax cut. For example, if you had an increase in exemptions or if you had further modification of depreciation or investment credit, would these have varying impacts in your judgment on the multiplier? If so, what kind of tax cut would have the greatest multiplier and which the least?

Dr. HELLER. It makes some difference, certainly. But we must not exaggerate its amount. We know that, on the average, persons in low-income brackets spend their entire incomes, while in the highest brackets they save as much of their incomes as they spend. But some studies suggest that the amount spent of an additional dollar of income is not nearly so different across the range of incomes, or at least across the brackets that really account for the bulk of taxable incomes.

Senator PROXMIRE. But I think almost all of the proposals we have here, with maybe a couple of exceptions, there would be a much bigger dollar tax cut with a bigger income.

I was going to say if you have a person with a $5,000 income and you have a $4 billion tax cut for individuals, as I calculate it, he would get about a $2 week increase in income or something in that area; whereas a person with a $50,000 income would have a somewhat larger dollar benefit.

Under these circumstances, while the dollar differences might be somewhat the same, if you had the same dollar tax cut, you wouldn't have it. Therefore, the difference in spending would be quite marked. You see, I am trying to get at two things, frankly, and my time is limited, so I am going to have to cut short.

The first thing I am getting at is that I am wondering even if a big tax cut of $6 or $7 or even $10 billion is going to give consumers the kind of money in their pocket that is going to result in their buying a house or car or buying anything of that kind. That is No. 1.

No. 2, which is somewhat unrelated but which is the whole point of what the chairman and Senator Douglas and Congressman Reuss and I have been arguing, if you do have a tax cut coupled with higher interest rates, is it not true you will have to have a much bigger tax cut to accomplish the same stimulation of the economy? Isn't it true that, whereas you might be able to achieve what you say you need to achieve on page 10 with a $7 billion or $8 billion tax cut, and the multiplier you have described, that if you have an increase in interest rates of the kind we have been reading about overwhelmingly in the news papers, and it seems to be in the cards on the basis of the Federal Reserve and Treasury policy, that you will need a 50-percent higher tax cut or maybe a 100-percent higher tax cut to achieve the same degree of stimulation?

Dr. HELLER. Let me answer the second question first, because I think we can dispose of that very quickly. It is perfectly true that if you