

Dr. HELLER. I am not in a very good position to judge that. I would hate to make a quantitative answer to something for which I don't have the underlying evidences before me.

Representative CURTIS. You said liquidity was low. That would indicate not so much idle funds, would it not?

Dr. HELLER. The extent of liquidity in the economy cannot be measured entirely in terms of the money supply, as conventionally defined.

Senator PROXMIRE. At any rate it would drive up interest rates, and in doing so, tend to reduce the accelerator principle?

Dr. HELLER. It would drive up interest rates. It would reduce the attractiveness of holding inventories and making plant and equipment investment.

Senator PROXMIRE. And the attractiveness of buying a house?

Dr. HELLER. Yes, sir; in the long term, there is no question about it. I would like now to come back for a moment to that earlier question about the stimulating effects of a tax cut, leaving aside monetary policy. The amounts that are involved in table I-3, if you have it in front of you, are really not inconsequential. Take, for example, plan B, which is a 3 percentage point reduction in tax rates.

Senator PROXMIRE. This is on an annual basis?

Dr. HELLER. These are on an annual basis. Either plan B or plan C which is the chamber of commerce proposal, or plan D, which is the \$200 increase in the per capita exemption—all involve some very appreciable tax savings. The fact that they might be distributed in small amounts from week to week doesn't mean they will not have a stimulative effect. They don't have to go into houses, TV sets, and so forth, to have an expansionary effect on the economy.

Finally, apropos of the distributional point, it is interesting that a one point across-the-board cut, as indicated in schedule B costs about \$2 billion of revenue.

Senator PROXMIRE. For \$5,000 income that would be a \$21-a-year tax cut and \$63 for a 3-point cut.

Dr. HELLER. That is right. For \$1.3 billion of each \$2 billion of the across-the-board cut would go to the first bracket. Most of the rest would go to the next few brackets. So that even if you had an across-the-board cut, the great bulk of the tax reduction would go to the first bracket—\$1.3 out of each \$2 billion—and the bulk of the remainder to the next few brackets above the first bracket. I think this is an important factor.

Senator PROXMIRE. Mr. Gallup has conducted some studies and there have been some other studies conducted. The Wall Street Journal had a survey, indicating that the people would not be inclined to spend the increased income received from the tax cut. While the propensity to spend is 92 to 94 percent of income, I wonder if there were not a psychologically adverse effect particularly if there was as much opposition as there is now to the tax cut. People might say this is a forerunner of trouble.

Dr. HELLER. This gets one again into the psychological realm as you suggest.

Past history does not support the results of Mr. Gallup's survey. I think Mr. Katona would have told you this morning that what people say they are going to do with an increase in income, particularly when they are full of good intentions about saving, is not very closely