to the pessimistic projects, it results in a GNP of about $560 billion. Thus, what we call the multiplier of the tax cut is about 2.

It may also be of interest that of the $6 billion initial tax cut, something like a third to a half would be recovered through the higher tax yields of improved economic activity. Let me add that we did not suggest that a $6 billion tax cut was the right amount. Larger tax cuts would have larger effects, of course, but we see no immediate reason to expect the resultant impact on the economy to be greater in a more than a proportionate manner. Thus, a $10 billion tax cut might improve GNP by about $20 billion, a $4 billion tax cut by $8 billion.

What do tax cuts do to unemployment? The $6 billion tax cut would lower the rate of unemployment by about 0.6 percent, or 400,000 persons. The improvement in employment would be greater as the labor force returns closer to its normal rate of expansion.

The single most interesting fact about these figures is this: even if the optimistic assumptions come true, that is, if the present supposedly "mixed bag of signals" resolves itself on the side of optimism, a tax cut would still be appropriate, since there is virtually no prospect of a real improvement in the unemployment situation.

If the tax cut were enacted, even under these circumstances, the resultant rate of unemployment would still be above 4.5 percent, and therefore short of full employment. Thus, a tax cut would not be a mistake even if the optimists were correct and things turned out just as well as one could reasonably hope for. The risks of policy, therefore, are not being run with regard to inflation, but recession and depression. For if things really go sour after this lengthy period of under-utilization of capacity and high unemployment and after the large decline in the stock market, no one can foresee just how the decline will occur and when and where it will stop. The prudent action, therefore, is a tax cut.

## REASONS FOR INACTION

The diagnosis I have just presented is now held very widely both by economists and by business and labor leaders. It would take someone with a lot more understanding of the political process than I possess to explain the present dim outlook for action in the face of this agreement. Let me discuss a few of the more economic points, however.

First, we are much too preoccupied with the ups and downs of recessions and expansions, and have lost sight of the longer-term trend of the economy in the process. It is indeed a fascinating sport to collect the straws in the wind every week about the immediate direction of movement of the economy.

In fact, however, the business cycle per se has become extremely mild. Inventory movements, as the recent studies prepared for this committee showed, are a large part of the quick ups and downs of recession. As the economy has become more slack and supplies abundant, business has gotten more and more cautious in its inventory policies. The inventory movement of the 1960–61 recession was substantially smaller than in the 1958 recession. Inventory buying during the present expansion was even more hand-to-mouth. Policies for fixed investment have also become more cautious and based on low assumptions of economic growth. These factors make recessions mild,