As a first approximation, I would assume that all of a tax cut accruing to individuals with incomes below $5,000 would be spent, and between one-half and three-fourths of a tax cut on incomes over $15,000. Applying a multiplier of 2, every $1 of low-income tax cut would raise GNP $2; the figure for high-income tax cuts would be $1 to $1.50.

(Responses by Mr. Pechman to the questions raised by the chairman:)

1. I would rank the four illustrative tax cuts in the following order as regards their effect on personal consumption expenditures: (*a*) an increase in the personal exemptions; (*b*) a reduction in the rate in the first half of the first bracket; (*c*) a reduction in the rate applying to all of the first bracket; and (*d*) an across-the-board cut of equal percentage points. However, the difference would not be very large. Although average consumption is a higher proportion of income in the lower income brackets than in the high-income brackets, differences in consumption out of increments to income are probably much smaller.

2. There are no current estimates of the consumption-saving patterns of families in different income classes. But earlier studies have all indicated that consumption declines relative to income as income rises. There are no data on the proportions of additions to income that might be consumed at various levels of income.

3. I do not agree that the fiscal structure would be distorted in any way as a result of an equal percentage-point tax cut. As I indicated in my statement, such a cut preserves the rate of progression and might therefore be more acceptable as an interim measure than a reduction in taxes applying mainly to one part of the income distribution. Since the consumption effect would be substantial in any case, I would support an across-the-board cut under present circumstances.

Chairman PATMAN. I have probably taken up my time, and I will yield to Mr. Curtis for questioning.

Representative CURTIS. Thank you, Mr. Chairman.

I find myself in a difficult position to ask questions because all three presentations start on a premise with which I disagree, a very fundamental premise, that our economy is stagnant. The very symptoms that I think you all use to substantiate your view that the economy is stagnant are what I would interpret as growing pains. We have had this argument before, Dr. Eckstein and I. I think it comes to two things. One is a question of whether or not we feel that an economy does move forward through business cycles, as we call them. Do we agree it does, that that is normal, to go forward in periods of expansion and then contractions like the peristaltic action, if I can be a little earthy? Is that a natural thing? If it is a natural thing what are we trying to do—interfere with a natural process? Rather should not we be understanding it and working with it? Could I ask that question?

Is it a natural process, or is it something that you want to eliminate? Do we want an economy moving like that and so we feel it moves up and down?

Mr. ECKSTEIN. Congressman, I doubt a little bit whether this is in my statement. Actually, the business cycle itself has been becoming milder of its own accord. The 1960–61 recession was a very mild one, more so than 1958. Even that was very small by prewar standards. I think our concern is that the little ups and downs have so preoccupied us, especially with the immense amount of statistics and figures which come out every single day, that we have tended to lose sight of the longer run trend.

Representative CURTIS. Do we agree, is it a natural thing? Is this the way an economy moves forward, through contraction and ex-