

effects of a change in taxation, either direct or indirect, is to change spending by some very high proportion of the change of taxes. Probably, for example, when income tax has been reduced by 50 million pounds a year, the net effect of this on consumer spending quite directly has been of the order of 40 million pounds of additional consumer spending. This has been the order of experience. The effect has usually come quite quickly.

Representative GRIFFITHS. If you reduced it 50 million pounds, with an increase of 40 million pounds in spending, there was no multiplying effect. Part of it was saved; is that right?

Mr. DAY. Perhaps 1 out of 5; 10-million-odd pounds would be saved. That would be the marginal propensity to save, roughly speaking.

I would not like to guarantee that figure precisely, but I have had some access to some fairly detailed research on this which has not been published, which suggests that the order of magnitude. 40 million sterling is spent, which, in turn, leads to a further round of multiplying effect and you get still more expansion as time goes on, as the result of that 40 million spent.

Representative GRIFFITHS. To whom were the cuts given? The people at the lowest level of taxation, or was it an across-the-board cut, or was it the highest level?

Mr. DAY. The biggest cuts of direct taxation have been at the highest levels. In particular, very substantial cuts were made in the budget of 1961, last year, which mainly benefited people with relatively high incomes, by British standards. At other times, the cuts have effected lower incomes, although, practically none of the cuts affect the lowest incomes of all. The cuts have simply affected people who were already paying tax, which in our system means people with incomes of more than 500 pounds or 600 pounds a year.

Representative GRIFFITHS. Were these cuts in taxes accompanied by increases in prices or interest rates, or did these follow, or not?

Mr. DAY. Almost invariably tax cuts have been accompanied by reductions in interest rates, loosening of monetary policy, and tax increases have been followed by tightening of monetary policy. Almost invariably there has been this sort of corollation. We have had a fairly steady inflation since the end of the war, and it would be hard to corollate the extent of the inflation with tax changes, except on the indirect tax cuts which sometimes have immediately affected the cost of living.

Representative GRIFFITHS. Would you think that a tax cut in this country, accompanied by lower interest rates, would adversely affect the balance-of-payments problem?

Mr. DAY. Yes; I am afraid it would. It would increase total spending, which would mean you would have an increase in imports because part of spending goes on imports.

Representative GRIFFITHS. So we are not in the same position. We could not lower the interest rates along with a tax cut.

Mr. DAY. This, I am afraid, is the dilemma which your economic policy must face. The dilemma is that if you have an expansionary domestic policy, the effect will to some extent be to weaken your balance of payments. Therefore, I would suggest that you simultaneously, with the expansion of the domestic policy, take steps of the