

ment. Under these circumstances, doesn't this seem to be an ill-advised proposal by the President, this particular part of his package?

Mr. BLOUGH. I believe that the President's tax proposals regarding the investment credit and depreciation are desirable. We have developed some tools for fiscal policy. We have applied them to stimulate business. The President and the Secretary of the Treasury recommended to the Congress, and it made, tax reductions even in the face of a deficit.

We had some beneficial results which were attributed to this action. I think to a considerable extent they were properly attributed to it.

Now we have the other side of the coin. We have the problem of what do you do as the economy becomes overheated. I don't know whether this particular measure is better than some other measure. I do say that we must experiment with our fiscal tools to find out how they work. A time when the economy is pretty well overheated, which I think it is, is a good time to experiment with these tools.

Now if the economy begins to show signs of downward movement, of too much effect, it is not very difficult to reverse that type of action.

Senator PROXMIRE. There is a lag of a year. If this should provoke a recession it might be pretty hard to reverse it. In the 1930's it took 10 years and World War II.

Now either the Secretary of the Treasury is right or he is wrong. He did document this very well. He didn't make a general statement. He supplied a memorandum which went into great detail as to why there is this lag. He went into one kind of equipment after another and the amount of equipment involved, and so forth.

Mr. BLOUGH. Well, it seems to me that concentrating only on the time of producing the equipment leaves out some important points. For one thing, there is the financing of these orders. For another, there is a psychological impact which can be immediate. In 1950 the anticipation of war orders and of other purchases brought about a tremendous anticipatory boom in the economy, which was not at all justified by what was actually being spent or even ordered by the Government.

An analysis of production would indicate a long lag in the effect of orders but instead there was a flareup of inflationary pressure in the fall of 1950, in anticipation.

Then there is the problem of financing these proposed capital appropriations, usually arranged in advance. The company which doesn't make a capital appropriation isn't going to have to look around for the money to finance it.

In the second place, a manufacturer of machinery and equipment, when he sees his order books are getting smaller, does not need to buy for inventory or expand his own plant. He doesn't need to be in as great a hurry to get his orders out. So that while obviously there are some effects which involve a very substantial lag, there are others that should be felt promptly.

Of course, one of the great difficulties in administering monetary and fiscal policy is the difficulty of anticipating lags.

Senator JAVITS. Would the Senator yield for a question?

Senator PROXMIRE. Yes; I have taken too much time. I yield the floor.

Senator JAVITS. I didn't mean to intrude, but I was going to ask you this question because I think it is central to it. The amount involved