

Representative GRIFFITHS. Mr. Chairman, I might point out that I once believed that a tax cut was a very simple thing to enact.

Mr. EISENMENGER. I don't mean that.

Representative GRIFFITHS. But it took the Ways and Means Committee a week to reinstitute the investment credit, and I may point out the Senate has been working on it ever since.

Chairman PROXMIRE. That is a relatively simple restoration that is almost unanimous. Everybody is for it. The administration has asked for it, in view of the economy, but you can imagine some other kind of reduction.

Mrs. Griffiths had a wonderful statement. She said she thought a tax cut would go through the Congress quicker than a declaration of war.

Representative GRIFFITHS. I certainly did. I couldn't imagine anybody in the whole world that wouldn't be glad to have a tax cut.

Chairman PROXMIRE. I must say I shared that view, but I have been disillusioned too.

I would like to ask you, Mr. Suits, because this is so crucial to your analysis, which is fascinating and I know you are a great expert in this area, if you could spend just a few more minutes justifying your multiplier figure. The staff is very troubled about it and I am concerned about it and it is most important, of course, if we are going to get a fair analysis of what we are up against if we do reduce spending or if we increase spending.

Mr. SUITS. I will be happy to.

First, may I say that the multiplier figure that I used is derived from what we call an econometric model of the U.S. economy, a system of approximately 90 statistical equations that represent the various interrelationships in the economy. However, the general order of magnitude of the multiplier is very easily justified.

Out of an additional dollar's worth of production, after we take off depreciation allowances, taxes, corporate savings, contributions to social insurance, personal taxes, and so on, we get down to about 67 cents of household income available for spending—what we call “disposable income.”

The figures indicate that taking one year with another, and one family with another, about two-thirds of this additional disposable income gets spent, which means that out of an additional increase in production of \$1, you get something like four-ninths of a dollar of additional spending. This responding ratio of four-ninths gives us a multiplier of nine-fifths. So that the overall general magnitude 1.85 is quite reasonable.

Now this multiplier includes in its impact the accumulation of additional inventory that accompanies higher sales levels, but it does not include in its impact the additional investment in plant and equipment that generally accompanies a very tight demand on our productive facilities.

In other words, 1.85 is what you might call a direct impact multiplier. It does not envisage a second or third order effect, in which business firms go out and add to their plant and equipment budgets as they did during last year.

Chairman PROXMIRE. So it is a conservative modest estimate.