Now there is certainly the incentive problem that you refer to if you have taxes too high, but our tax rates I think are generally more favorable to incentives now than they were in 1963 before the Revenue Act of 1964.

Representative RUMSFELD. If the social security trust fund is affected as you just described, why in your statement did you say "If social security benefits are increased less or later than proposed" when your last comment indicated it was just a transfer, taxes for benefits?

Mr. TOBIN. Yes.

Representative RUMSFELD. Why would it have any effect at all the way you suggest?

Mr. TOBIN. The reason it would this year as I understand it——

Representative RUMSFELD. The lag?

Mr. TOBIN. The President has proposed that the benefits start July 1 but that the accompanying taxes start next January, so that there would be a period in which the benefits which were being paid out from current surpluses of the trust fund wouldn't be offset by additional taxes.

Representative RUMSFELD. Dr. Culbertson, even if monetary policy changed now, could we avoid the recession you foresee by summer, since monetary policy operates with a lag? Won't the restrictive policies of last year have its impact this year, and what is done now have only a limited effect during this danger period you see?

Mr. CULBERTSON. Our knowledge of lags as well as effects is very limited and none of us can speak with great confidence on such a question. In my own view of the matter, though, in a situation in which the economy is rather poised to go one way or the other, the lags may be very short. That is, plans are being kept flexible. People, businessmen, are ready to move one way or the other, and it seems to me that in such a situation the lags may be, as I say, extremely short. Depending on what action the Federal Reserve takes, in one direction or the other, we may have the beginning effects within a matter of weeks or a month or so. The full lag, of course, works out over a longer period and is very difficult to define.

Representative RUMSFELD. I would be interested in knowing what the reactions of either of you might be to this question about the unsettling effect of a so-called yo-yo tax policy. Chairman Mills of the Ways and Means Committee has voiced doubts about the wisdom of making frequent tax changes for economic stabilization purposes. Do you see any unsettling or destabilizing effects from this discussion about raising or lowering taxes during the relatively short periods of time? Does it cause uncertainty in the business planning, Dr. Tobin?

Mr. TOBIN. Business planners and other planners are subject to all kinds of uncertainties about their markets, their costs and everything, and I have never quite understood why they regard the uncertainties about taxes and other aspects of Government policy as of a different and more difficult order of magnitude than the general uncertainties of the markets which they face. I should think that if flexibility in tax and monetary policy were well done it would actually make things easier for them by making the general outlook under which they make their plans more reliable.

I should think that the modest and tentative conquest of the business cycle that has occurred in the last 6 years has made business plan-