

there have been this time several tax actions with avowed economic objectives—the investment credit and liberalized depreciation allowances (1962), reductions of personal and corporate rates (1964), excise rate reductions (1965), and, more recently, tax increases embodied in the Tax Adjustment Act of 1966 and the investment credit suspension.⁵

Notwithstanding the absence of contracyclical tax action in the first four postwar cycles, it is a practical certainty that it will be forthcoming in some fashion from now on. This makes it important to consider problems incident to its application. As already indicated, the one we are concerned with here is the effect of lead time (or, looked at the other way, of time lags) on the operation.⁶

2. THREE LAGS

There are three time lags to be considered, which we may call the “recognition lag,” the “legislative lag,” and the “response lag.” The first results from delay in official recognition and acknowledgement of the need for tax action. The second reflects the time required to get congressional approval after such recognition. The third arises from the delayed response of the economy after enactment. Suppose we say a few words about each.

RECOGNITION LAG

Actual experience with tax increases to restrain booms is very limited (there having been none in the first four postwar cycles, as indicated). It is a safe bet, however, that they will rarely come before the conditions they attempt to combat are fully realized. Repressing booms is a politically painful operation, and can hardly be done on the basis of forecasts, especially when, as usual, the forecasters are divided. Action must await the development of consensus as to its necessity, and this matures only in the presence of conclusive evidence—tight credit, rising prices, labor shortages, fat wage settlements, capacity squeezes, etc. Certainly this has been true in the present boom, when the first identifiably contracyclical tax action (a limited one) was presented to Congress in January 1966, and the second (also limited) in September.⁷

The recognition lag applies also in the reverse operation, combating recessions. Due in part to delay in the availability of figures, in part to mixed indicators in the early stages of recession, it is usually impossible to be sure of a downturn until two or three months after it has started. But this is not all. The incumbent Administration may be reluctant to admit its existence until forced by overwhelming evidence. This is not a mere possibility; delays in official recognition of the turn have characterized to some degree all of the postwar recessions.⁸

LEGISLATIVE LAG

Once the Administration has decided to move contracyclically on the tax front, it is necessary to get a bill through Congress. This adds a second, or legislative, lag to the process.

There are not enough precedents in the record to establish the probable length of this lag. The only clear instances of contracyclical tax action, the Tax Adjustment Act of 1966 and the recent investment credit suspension, are of interest, however. The former took two months from introduction to enactment (signature by the President); the latter, eight weeks. Whether these intervals are

⁵ Among other things, the Tax Adjustment Act raised and extended certain excises, further accelerated corporate tax payments, and imposed graduated withholding of personal taxes. More recently, by administrative action, there has been a step-up in the timing of the payment of withheld Social Security taxes.

⁶ It will be noted that only the last two of the tax actions in the present cycle were *contracyclical*, the earlier ones being *procyclical*—designed to *accelerate an expansion already underway*. The New Economics rationalizes both. While both will doubtless be employed in the future, we shall conduct the discussion in terms of contracyclical action alone. This not only because of its presumptively greater frequency and importance, but also because the associated timing problems are likely to be more acute.

⁷ The Tax Adjustment Act of 1966 on January 24 and the investment credit suspension on September 8.

⁸ See Wilfred Lewis, Jr., *op. cit.*, pp. 101–2, 148, 195–7, 242–4. While the only stimulative actions in these recessions were on the expenditure side of the budget, and were implemented largely through administrative measures, they came late. Lewis concludes that “[d]iscretionary actions have not been in effect before the trough month so that, except for possible anticipatory effects, they have not been a factor in cushioning the decline or in causing turning points.” *Ibid.*, p. 19.