

Mr. CHANDLER. I would say it is a minimum package and that if it goes through, it probably will not be enough to permit us to have anything like a sensational turnabout in levels of interest rates. But as a minimum it would probably head off the necessity for still higher interest rates. I would like to see a larger package, but at this point, I am willing to take anything I can get.

Representative MOORHEAD. Professor Modigliani?

Mr. MODIGLIANI. Yes, I would agree that this is about the right figure to shoot at at the moment. I do not think we can be any more precise at this time. As developments unfold, 6 months from now, we may want to take a new look and see what the situation looks like then. It seems to me that at the moment, this figure is realistic. That is, it is within feasibility. And I would rate urgency above being precise about quantity. I think the first thing is to get it going.

One other comment. I would like to stress one point Professor Chandler has made in his presentation, namely, the while we have been concerned here with development of rules for the Federal Reserve, we should stress the great importance of a flexible fiscal policy as a long-run program. In particular, I think the proposition—well, some of the results of the study I have been undertaking together with the Federal Reserve do confirm these long lags in monetary policy and do suggest that monetary policy is not a good instrument for fine tuning.

Representative MOORHEAD. That monetary policy is not—

Mr. MODIGLIANI. A good policy for fine tuning. In other words, there is a point in saying we would like to live in an environment in which the tasks of monetary policy are to bring about only slow changes, changes which result from slow developments. But for the fast developments such as sudden changes in expenditures or other kinds of rapid changing conditions, fiscal policy is more suited.

I think one point that needs attention is the development of fiscal tools which are flexible and also which have the correct expectational aspect. You see, there is one problem. We have talked frequently about the possibility of using temporary changes in the income tax; that is, raise it and lower it temporarily.

These temporary changes have one trouble, that they have the wrong expectational aspects. If the people know the taxes are going to be put up for just 3 or 6 months, chances are there would be little change in their consumption because they would look forward to being able to recoup later. Therefore, I think attention should be given to finding measures that have the right incentives. An example of such a measure is a suspension of the investment credit. Temporary suspension of the investment credit has the effect of encouraging a postponement of spending until the credit has been reinstated.

Therefore, besides reducing expenditure by reducing income it also reduces it by inducing a postponement to a time at which the higher expenditure will be useful to support aggregate demand.

A similar provision can be made with respect to excise taxes. They would have the right expectational characteristics and I think this would be an excellent tool to add to our box of tools.

Mr. WALLICH. These last two remarks of Professor Modigliani are exactly those I wrote down here: Income tax changes do not operate well on a temporary basis because people will cover the gap by