

President the power to raise taxes during the time that Congress is not in session. But I did not get too much support for it.

Mr. CHANDLER. I would like to make a comment on a statement by Professor Modigliani. He pointed out, I think quite properly, that an income tax cut with a stated terminal date might not be very effective because people would go ahead and spend. That would argue very strongly against a tax increase that would expire, say, on December 31 of this year. But I should not expect it to apply to a tax increase of indefinite duration.

In other words, if the tax were put in and would stay there until you gentlemen took action to take it off, I think you would avoid the escape that Professor Modigliani indicated.

Mr. MODIGLIANI. I would like to comment on one point. I would not agree on the idea of entrusting that power to the Federal Reserve. I think it is to be entrusted to elected officials. I think if the President makes the mistake of not raising taxes when they should be raised, he should bear the blame. He can be defeated next time. One hopes that this is the way democracy works, that at least in the medium run, it works.

I think it should be left to the Congress and to the President.

I think your idea that the President could raise taxes, I suppose this is subject to the approval of Congress. I suppose Congress could disapprove, and, also, Congress could propose that the tax be cut, but it could not be done by the President on his own authority. That is what you are suggesting?

Representative MOORHEAD. Oh, yes.

Mr. MODIGLIANI. This strikes me as quite possibly a very good device, although there is something to be said for announcing in advance a terminal date for this kind of tax and then, perhaps subject to some conditions under which the termination would not be automatic or something of the sort.

Representative MOORHEAD. Of course, I would put a limit on the amount that he could raise them. I am not sure what that should be.

Mr. MODIGLIANI. Oh, of course. He could choose within some limited range.

Representative MOORHEAD. Take something like the Reorganization Act, the Congress could disapprove it if he acted. But otherwise, the Congress would retain the complete power of cutting taxes.

Mr. WALLICH. Could I add one thing?

Representative MOORHEAD. Yes.

Mr. WALLICH. I think it is extremely important to put a terminal date on this, even though I recognize that it reduces the effectiveness, because if there is not, it is very likely that the supposedly temporary tax becomes permanent, like the telephone taxes. This mechanism then generates a gradual rise in the size of the public sector that was not intended.

Representative MOORHEAD. Thank you.

Chairman PROXMIRE. I would like to pursue that on the basis of the same questioning that Congressman Moorhead was engaging in.

I agree on the terminal date. I would make the date about the day after it was enacted, because I am against the tax increase entirely, probably for the very interesting arguments that you gentlemen have properly made concerning it. You point out that a tax, an income