

tax, with a terminal date is less likely to have an effect on expenditures and consumption by the taxpayer, for obvious reasons. This is a tax that is being imposed now, this \$10 billion tax—\$7 billion of it would be on the individual taxpayer—that would expire within a year. Testimony we have had heretofore has indicated that tax increases that we have had in the past or tax changes we have had in the past have a lag of 9 months. Some have argued a year or 2 years.

Again, in view of the unpredictability, as we look at the international situation, the Vietnam war, and so forth, it would seem to this Senator that it is just a shot in the dark to impose a tax which is going to have its effect probably in a year or so if at all, and although you gentlemen seem quite sanguine on the notion that if you put a terminal date on it it will expire at that time; I would disagree with you, because we have had very few taxes that have expired at the time that they were scheduled to do so. They are usually reenacted.

You are likely to have a situation, in my view, where you have increasing unemployment, but also continuation of rising prices if we are realistic about it, so it is going to be hard to get that tax repealed.

We all think it is easy to stop taxes or at least to lower taxes, but I think if you will recall the last tax cut experience, in 1964, President Kennedy struggled and fought and pleaded and tried to persuade the Congress for 2 years before it was finally put into effect.

So that this whole—I do not want to get into an argument, of course, on fiscal policy, because that is not our purpose here, except to express the notion that I think it is a mistake to say we can rely on monetary policy for the long-term effect and hope that we can have a fiscal policy which is going to be more responsive to the immediate need.

That may be very good economics, but I think it is very bad politics.

Our experience has just indicated that we are not going to do it. We are not going to put business on a yoyo with this investment credit. My experience is that Congress has had it with that. We put it on, took it off, put it on again. Congress does not want to fool around with that any more. I cannot think of anything worse politically than to put an excise tax on, take it off, put it on again. The small businessman does not like it, the businessman reacts most violently to it. The consumer does, too.

So this relying on tax increase for economic short-run effects I do not think is very realistic.

Professor MODIGLIANI. I think in terms of the lags you have referred to, I think the studies we have been conducting do suggest that the lags are not that long. Six months, yes, but there is some impact effect within the first quarter and the effect builds up.

So that I don't think one should be that pessimistic. Also I believe that under the present circumstances, there is a psychological impact which is extremely important. I think I would expect, in fact, that it would have some immediate effects in the financial markets. That is one of the things we seek. We do seek to put an end to the escalation of interest rates with the danger this poses to some sectors of our economy, such as the construction.

Chairman PROXMIRE. Let me pose the question a little more sharply and specifically.

Supposing this package does go through, the \$10 billion tax increase, the \$4 billion expenditure cut, et cetera. Mr. Chandler indicates he