

economists that current consumption decisions and behavior are not a function of the household's current aftertax income and that whether changes in current aftertax income result in changes in consumption depends on numerous other factors. While there is a continuing argument among economists concerning the determinants of consumption, there is much less disagreement about the proposition that temporary income tax changes are likely to have little near-term impact on consumption.

If no systematic and predictable relationship between changes in consumption outlays and in disposable income in the shortrun can be assumed, the argument for a temporary income tax surcharge on grounds of restricting the shortrun expansion of aggregate demand is of no force. Many new economists are disconcerted by the allegedly puzzling behavior of the personal-saving rate in the recent past and the evidence that, accordingly, the predictability of consumption changes by reference to income changes is much less than conventionally assumed. One would think this would at least give them pause in their advocacy of the surcharge.

Whether or not one finds the theory appealing, actual experience of the U.S. economy in the years since World War II affords no convincing evidence of a predictable relationship between changes in fiscal policy and in the pace of economic activity. Perhaps the least demanding test one might require of the view that there is such a relationship is that decreases and increases in the so-called "full-employment surplus" should result in speeding up and slowing down, respectively, of the expansion of GNP, within a reasonably short period of time. In fact, this test is failed at least as often as it is passed, based on quarterly data, lagged or unlagged, since the first quarter of 1947.

To take a couple of specific examples, between the last quarter of 1947 and the last quarter of 1948, the full-employment surplus was reduced by about \$12 billion, as the result of a \$5 billion tax reduction and a \$10 billion increase in expenditures. Surely this highly stimulative fiscal policy should have produced a sharply accelerated increase in total spending and output. As you know, however, the contrary was true; the economy experienced a sharp recession beginning in November 1948.

Currently, the favorite example of fiscal impact on the economy offered by the advocates of frequent tax changes for stabilization purposes is the tax reduction of 1964. It is perfectly true that aggregate demand increased strongly following the tax reduction. It is conveniently overlooked by fiscalists, however, that aggregate demand had also been increasing sharply for a year before the tax cuts went into effect.

In summary, the postwar experience affords no evidence upon which one could objectively conclude that income tax increases or reductions, per se, act promptly to curb or stimulate total demand in the private sector.

Failing the assumption that private spending will change quickly in response to a temporary change in the private sector's disposable income, the case for tax increases now, in order to slow the rate of expansion of total spending during the remainder of this year and the first half of next, is very weak, indeed. Even more feeble, on anti-