

Mr. McCracken. We shall certainly try to cooperate with the committee.

Chairman PATMAN. Thank you, sir. We have our newest member on the Joint Economic Committee, Representative Conable. Mr. Conable, we are glad to have you, sir. You may proceed.

Representative CONABLE. Dr. McCracken, it would be presumptuous for me to welcome you before this committee because my membership on this committee is shorter than your chairmanship of the President's Council. So my questions are necessarily modest, sir.

I am interested in the surtax, however. As I understand it, as an anti-inflationary device it has two major impacts. First of all, it reduces the deficit which is itself inflationary and, second, it tends to reduce the total demand for goods and services in the private sector.

Now you said, in answer to a question earlier, that you preferred the expenditure reduction route from an economic viewpoint, and I assume that was because it has a more immediate impact on the total demand for goods and services. Is that right, sir?

Mr. McCracken. My comment there was that I thought the anti-inflationary impact of reducing expenditures by a dollar would probably be somewhat greater than increasing taxes.

Representative CONABLE. Is that because of the very high level of savings at the present time? Do people tend to dip into their savings to pay increased taxes rather than reducing their demand for goods and services?

Mr. McCracken. Yes, that is a significant part.

Representative CONABLE. And is that one of the reasons why there has been a lag in the impact of the surtax on our economy generally?

Mr. McCracken. This, I think, has been a part of it, and the savings data show that.

Representative CONABLE. So we can anticipate, can we, a greater impact from the surtax, let's say in April, when people find out they are under-withheld, than there has been up to this point.

Mr. McCracken. I would expect there will be some unpleasant news there which will have an effect on consumer spending.

Representative CONABLE. What I am trying to decide in my own mind, sir, is whether the surtax then is likely to have a greater economic impact as we extend it, assuming that is necessary, than it did initially. Have we drawn down on savings to any extent or is the rate of saving continuing at this same high level that it was?

Mr. McCracken. The savings rate declined in the second half of 1968. It was, I think, a little, it was back within the normal spectrum, though still a little high by standards of the early 1960's.

I think the extension of the surtax would probably more or less continue the status quo. Research on consumer attitudes would suggest that anything which is "more of the same" is not apt to have a significant displacement effect.

Of course, if the surtax were to be reduced this might well be interpreted as good news which could produce quite a substantial rise in spending.

Representative CONABLE. I am wondering whether continuing the surtax at a reduced level would have the same economic impact in terms of inflation that putting it on at 10 percent last year had in light of last year's savings level.