increase on top of the massive increase we already have, you have, No. 1, the problem of the impact on the economy generally, which I am sure you are addressing yourself to.

You have, No. 2, the problem Mr. Bolton was concerned about, and I think properly so, the impact on particular regions, which are already straining their resources and have a real manpower shortage, and so forth, the impact on them.

Mr. SUITS. Yes. Now to take the overall picture, last November in making our projections for calendar 1967, we allowed for an additional $12 billion over calendar 1966 in defense spending.

Now if this would be an additional $4 billion on top of that, it would add roughly 1 percent to the 1967 GNP.

Chairman PROXMIRE. You are talking about that combined with the multiplier effect?

Mr. SUITS. Yes.

Chairman PROXMIRE. Incidentally, the staff questions your multiplier. They think that 1.85 is small, and that it could easily be substantially more than that. The impact of this spending would be in my view considerably more than 1.85.

Mr. SUITS. Let's take up this question of the size of the induced effects; 1.85 does strike many people as being a low multiplier. I think the reason is that we have an exaggerated notion of how much of our demand is actually induced by income as compared to outside forces, consumer whims and so on.

The position of the automobile industry, which—at least up until the last couple of weeks—has had declining sales in face of a very rapidly rising consumer income, is a case in point.

Now the multiplier 1.85 works out roughly as follows. If we begin with an initial $1 of gross national product, not all of this of course reaches the household. Some of it goes for depreciation allowances, some of it is taken in taxes, some of it goes into corporate saving, and so on. Out of an initial $1 of GNP, only about two-thirds, about 67 cents actually reaches the household.

Chairman PROXMIRE. This is, you would agree I am sure, very theoretical, isn't it, because if you are doing this in a period like 1964, 1965, 1966, when we have this massive acceleration of business investment in plant and equipment, when it virtually exceeds, well, it is about at a level with the cash flow, and they invest almost everything they have, their depreciation reserves, their undivided profits, everything that is not distributed as dividends, under these circumstances these assumptions you are making wouldn't be true.

Mr. SUITS. Yes, this is quite correct. If you are going to include the pressure on capacity utilization, such as we saw last year, and the impact that this has on business plant and equipment expenditure, then the multiplier in this sense could very easily be as high as 3. That is correct.

Chairman PROXMIRE. I am very impressed and interested in your estimate. It could be misconstrued easily, that the Vietnam situation, if we didn't have the Vietnam war, and we didn't follow any other compensating governmental policies, we could have a depression, in the fourth quarter of the last year, a depression to the extent of 7.7 percent of our work force out of work.