

ingly have resulted in putting more liquidity into the system without affecting current interest rate levels. That increased liquidity makes us more vulnerable to inability to control an increase in the aggregate demand, if it should come on strong in the fourth quarter or the first two quarters of 1968, and would therefore require either more prompt tax policy to offset. But you might say, "Well, again, there exists some Fed policy in the direction of the negative rates of increase or decreases in the money supply, to offset the excess liquidity that was built into the system."

But then predicting the lag, the rate at which this can go into effect is quite difficult in terms of how much excess liquidity is built up now and then the tradeoff in the minds of the decisionmakers as to how much decrease in liquidity they are willing to accept versus changes in their current spending patterns. You get into some rather difficult lead-lag relationships as a consequence.

Representative BROCK. Thank you. My time is expired. I would like to pursue it. I appreciate it very much.

Chairman PROXMIRE. Professor Samuelson and Professor Weston, we have had testimony in the past 3 days which suggests roughly the economic system to be as follows:

No. 1, we have a very modest rise in investment, that is investment in plant and equipment, investment in inventories which may be even negative for a little while longer.

No. 2, an increase in consumption that at most will not exceed the rise in income.

No. 3, a lower level of housing than was expected earlier this year.

No. 4, a sharp rise in liquidity preference.

And, No. 5, the likelihood of a much bigger deficit than we had expected.

Under these circumstances, it would seem that our main concern may very well be with the credit market, with the so-called credit crunch, and under these circumstances, I just wonder if the best approach to this is a 6-percent increase in the surtax or if we have just frozen on this particular symbol and either it should be a larger increase in the surtax or it shouldn't be a surtax increase at all.

For example, I can see some argument for saying that, since this is a problem of capital demand, that the reinstatement of the investment tax credit would be more appropriate.

Would you comment?

Mr. SAMUELSON. First, I would like to say that I agree with each of the points that you enumerated, but I think that the whole is equal to the sum of *all* its parts and not just part of them, that any responsible macroeconomist in appraising the testimony that you have heard and putting it in the context of estimates, would also point out a very considerable increase in defense spending, in Federal spending.

Chairman PROXMIRE. I said a substantial Federal deficit.

Mr. SAMUELSON. I want to emphasize the resource use that is involved in that. In fact, most of the increase in the deficit—I would like to make my testimony clear on this—is not due to underestimation of tax receipts because of the unforeseen weakness in the economy. Perhaps \$2 or \$3 billion might be that.

Most of that is an increase in expenditures not budgeted for in January by the Federal Government. So I guess I don't believe that