Mrs. GRIFFITHS. At $25,000 how much less?

Mr. SCHULTZE. The Secretary's statement, on the last page, shows that at $25,000 the total impact of the tax, when it is fully effective—in other words, on 1968 tax liabilities—would be $441 less than at present.

Mrs. GRIFFITHS. At $25,000 those people are not really going to delay what they are going to purchase. They may put less money in the bank, so that you will have less money to lend.

Mr. SCHULTZE. Mr. Ackley may want to comment further on this, but what you are after is the spending rate of additions to income at that $20,000 to $30,000 income range. On the basis both of my wife's buying habits, and perhaps more appropriately, on the basis of studies which have been done, the indications are that the spending portion of that extra income is still quite significant. I don't know what numbers would come out, but the marginal rate is still quite significant. Any study which has been run will show it is quite high, although I can't give you a specific percentage.

Mrs. GRIFFITHS. If this tax is enacted, what effect is it going to have on wage negotiations? Since the auto companies will have less money will they be more willing to resist wage demands and since the unions know that they have somewhat less money will they withdraw demands?

Mr. ACKLEY. If I may start the answer to that, the impacts are several. One, of course, is the direct impact of the additional tax on the profits of the corporations which makes them all the more resistant to wage increases, and the impact of the knowledge of that on the unions.

I think the more important anti-inflationary impact of the tax action is in avoiding the kind of labor market shortage, excess demand situation, in which businesses are competing with each other to find additional workers and willing to do whatever it takes to get them. It is a climate in which they know they can easily raise prices to cover the cost of excessive wage increases. It is a climate in which the cost of living is rising more rapidly and the workers feel the need to get larger wage increases to keep up with the cost of living. Employers recognize that.

The whole climate of negotiations is affected by the state of the economy.

Mrs. GRIFFITHS. You have already told me it is not going to have any effect at all on half of the persons.

Secretary FOWLER. No; I think up to $5,000. Sixteen million out of 98 million taxpayers would be exempt from the surcharge. That is our computation of the effect of the exemption from the surcharge of those in the two lower brackets—a little over 16 million out of 98 million taxpayers.

Mrs. GRIFFITHS. It seems to me, frankly, that the new economics is running into old politics. It was hard enough to sell my district on the idea that if there was a tax cut we could pay our bills better. This was back when the first tax cut was offered. Now I am going to have to go back again with your suggestion that we increase taxes to start paying our bills and stop inflation.

In the first place, I don't think this is enough to do anything in the face of the problem.