

Chairman PROXMIRE. I am a little bit confused by your analysis of the fiscal impact of your proposals. I had assumed superficially, without having had the very helpful presentation you have given us, that the impact of the 20-percent increase in social security payments on the economy, beginning July 1, would be about at an annual rate of \$5 billion—roughly \$5 billion—a year in increased Government expenditures, increased expenditures by beneficiaries.

Mr. COHEN. About \$4.5 billion.

Chairman PROXMIRE. About \$4.5 billion?

Mr. COHEN. Yes; at a full 12 months' rate.

Chairman PROXMIRE. It is fairly close to the impact of the expected increase in Vietnam expenditures—something like that, or maybe a little bit smaller. But you seem to say here that you would modify that to some extent through calendar 1967. Am I wrong, or is that about right?

Mr. COHEN. You are correct.

Chairman PROXMIRE. There would be no increase in contributions; no increase in taxes?

Mr. COHEN. That is right.

Chairman PROXMIRE. Until January 1, 1968. Is that correct?

Mr. COHEN. That is right. The full figure for the fiscal year 1968 is actually \$4.1 billion.

Chairman PROXMIRE. But it would be bigger than that, I should think, in the last half of 1967, inasmuch as there would be no increase in contributions in the last half of 1967. There will be an increase because of the larger base in the last half of the fiscal year or the first half of 1968.

Mr. COHEN. I was giving you the expenditures first, and you are correct, that in the last 6 months of calendar 1967, there is no proposed income increase—neither a rate increase or a maximum earnings increase. So for the last 6 months, roughly \$2 billion of that \$4.1 billion—the annual rate—would be a benefit expenditure without any increased income coming into the system.

Chairman PROXMIRE. This is spending in a way that is quite dynamic. Insofar as I understand it, my assumptions, at least, have been that this money is really spent. Relatively a small proportion is saved. For most income, I assume, the taxpayer when he gets a tax cut will save about 7 or 7½ percent of his tax benefit. I would assume that social security beneficiaries would save very little because of their age and because of their low income; is that correct?

Mr. COHEN. I think that is correct.

Chairman PROXMIRE. So that their saving might be only 1 or 2 percent.

Mr. COHEN. I think it would be very slight.

Chairman PROXMIRE. I would like to know how you anticipate this money is likely to be spent at this time. For example, my own assumption would be that very little of it would be spent on education, which is good, because we have terrific demand for education, facilities that strain the manpower available in educational facilities. Is that correct from an economic standpoint?

Mr. COHEN. Yes.