

My personal judgment as one in the forecasting business for many, many years, is that the use of models to date can be regarded as very helpful but nevertheless only as a supplement to good judgment, and that is the way in which we are presently making use of that model, which is in charge of the Office of Business Economics.

I might say as far as the 1967 period is concerned, the last results I saw of that model would come out with results not far from the judgment forecasts or projections that we have been discussing today.

Chairman PROXMIRE. By that you mean increase in the price level by 2.5 percent, unemployment of about 4.5 percent at the end of the year, and a growth of about 4 percent.

Mr. SHAW. Give or take a few tenths of a percent point in each case. I think we have to keep in mind here that when you are talking about the future, much less the present and the past, it is I think to some extent oversimplifying the situation to talk down to one-tenth of 1 percent.

Chairman PROXMIRE. We know it is not a crystal ball. It all depends on your estimates. Last year in December of 1965, one of the Governors of the Federal Reserve Board—not Mr. Martin obviously—told us they put the increase of the rediscount rate into a Brookings model and found that it increased the price level, not decreased it.

Mr. SHAW. May I comment on the second part of your question, Mr. Chairman, which had to do with the effect or possible effect of a tax increase on the outlook for 1967.

Chairman PROXMIRE. Right.

Mr. SHAW. I have not seen the results of the model of the Office of Business Economics. As a matter of fact, I am not sure whether that particular shift in equations has yet been run through. I have, however, seen several models, similar models developed outside the Government, some developed by individual industry firms, some the better known ones.

The ones that I have seen have indicated that the proposed tax, surtax increase of some 6 percent along with the remainder of the fiscal policy recommendations of the President, the difference between having that tax and not having that tax would not have a significant impact on the total demand in 1967.

Chairman PROXMIRE. That is very interesting. It will not have a significant effect on 1967?

Mr. SHAW. Not on 1967.

Chairman PROXMIRE. It might have it in 1968?

Mr. SHAW. Yes; the impact might have this in 1968.

Chairman PROXMIRE. Which is beyond what the crystal ball will show. You don't know what that will be?

Mr. SHAW. Yes, sir.

Chairman PROXMIRE. That is very interesting. Now let me ask this: You say, Mr. Trowbridge, that you expect in the second half of the year, defense spending will tend to ease off, the impact of defense spending will ease off, still at a very high rate, but that it won't be as stimulating as it has been or as it is now; is that correct?

Mr. TROWBRIDGE. You are referring to the statement "A tapering off in the rate of advance in defense purchases"?

Chairman PROXMIRE. That is correct.

Mr. TROWBRIDGE. Right.