would be wise for the President and for the Congress to wait as long as we can before July 1 to make our decision on the surtax increase rather than move now.

Would you agree that we can get a clearer picture of the economy 90 days from now than we can now, and would you also agree that in the event in our best judgment the economy leveled off or was turning down, it would be unwise to impose a surtax?

Mr. TROWBRIDGE. Mr. Chairman, speaking for myself, I think that the flexibility in the President's proposal is a very wise thing. Obviously 90 days from now we will know a good deal more about how the economy is going. I think Secretary Fowler has indicated that the decision as to whether to proceed full speed with this proposal will get looked at again both by the administration and obviously by Congress.

To the effect that a tax surcharge would help take out some of the heat that we do think is coming along in the second half of the year, I would think it would be very wise to go ahead and put it on.

Chairman PROXMIRE. Mr. Trowbridge, meet Mr. Shaw. Mr. Shaw has told us it is not. Maybe I misinterpreted Mr. Shaw. I understood you to tell me that it would not have any effect on 1967.

Mr. SHAW. Mr. Chairman, I said the model indicated that. Second, what I meant to say, and if I didn't say it, I would try to make it doubly clear at the moment, that what the model said was not merely in terms of the proposed tax increase, but in terms of the whole fiscal package proposed by the President, and that includes the passage of the increased social security benefits.

Chairman PROXMIRE. What they are saying is that this is a washout.

Mr. SHAW. The reason quite clearly why the model seems to come out that way is that in the second half of 1967, the proposed increase in personal income taxes would be just about offset by the proposed increase in social security benefits, in the second half of 1967.

Chairman PROXMIRE. Now let me say that is the trouble with models. That is the trouble with macroeconomics. When you break it down and determine what effect the social security benefits have specifically in particular areas, and what effect the surtax would have in specific areas, you find quite a different picture. As I said, the increase in food purchases is going to be heavy. On the other hand I doubt if the surtax increase is going to diminish food purchases at all. On the other hand, the surtax increase is going to have some effect very possibly on automobile sales. It is going to have some effect conceivably in construction, although maybe we could debate that.

At any rate, it is not going to have the same effect at all, the surtax, as the social security benefits. That is why looking at it in the overall is likely to give a distorted picture. At any rate, in view of the facts that we have almost an unlimited capacity to produce food, we have been spending money hand over fist to keep our farmers from producing more; we can easily meet the increased demands for food. And I doubt if we can do very much about the increased demand for medical services by any kind of a tax. It is not going to cut it down. So, therefore, it would seem to me that the notion that you are going to get a tradeoff, a balance here, isn't very sound in terms of using our resources as much as possible, or in terms of maintaining price stability.