of the Consumer Price Index, if you could give us some indication of the effect of the 10-percent surtax on prices. If you can do so, and show us any indication of when you think the effect might be over a period of a year or so. And could you also give us the assumptions that you make with regard to the impact of the surtax on income—the result that you conclude we could expect on the surtax.

Mr. Ross. I would be glad to do whatever I can on that, Senator.

Chairman PROXMIRE. I know it is a big order. Maybe it is an impossible request. But I think unless we get some specific analysis of the effect on particular prices, we are spinning our wheels—we just do not know what we are talking about.

Mr. Ross. Yes, sir.

(The following information was later supplied:)

The effect of the surtax upon personal income depends, of course, on the assumptions that are used in making this analysis. In general, it can be said that disposable personal income would be higher without a surtax than with one—by the amount of the surtax plus some multiplier effect.

However, since prices would be rising more rapidly in an economy not subject to increased taxes, the increase in real income without the proposed surtax is likely to be significantly smaller than the surtax. Moreover, if the realistic assumption is made that new monetary restraints would be necessary if the surtax is not enacted, these restraints could seriously reduce activity in the fields of housing and business investment, thereby cutting back (on an inequitable basis) some of the expected increase in personal income.

Without the proposed income tax surcharge, we would expect the 1968 price increase (GNP deflator) to be as much as half a percentage point greater than with it. This would place the rise close to 4 percent, compared with current projections of about 3¼ percent assuming passage of the tax. It is difficult to project beyond the end of this year, but it is quite possible that price increases in the neighborhood of 4 percent during 1968 would influence consumers' expectations and result in further rises subsequently. If that happens, the effects of not passing the tax surcharge would begin to show up clearly during the last half of this year, and probably would cause an acceleration of price increases early next year.

The prices that would advance the most if the surcharge were not passed are those for products that have high income elasticities. These comprise commodities and services for which the consumer has considerable discretionary power to spend or not spend. In this category it would seem applicable to place such items as home purchase, restaurant meals, new and used cars, recreational goods and services, some clothing items, furniture, appliances, and floor coverings. These goods constitute about 25 percent of the total weight of the consumer price index.

Chairman PROXMIRE. Thank you very much.

Thank you, Mr. Secretary, and Mr. Ross, for an excellent presentation. It has been a most enlightening morning.

Secretary WIRTZ. Could I, Mr. Chairman, add to the record, at this point, an expression of what I know is a regret, shared by the members of this committee and by myself, about Mr. Ross leaving the Government to go back to the university world, and to take this opportunity to express just a very deep gratitude for what he has brought in the last 2½ to 3 years to the kind of Government discussion which is illustrated here this morning, and which I think is so imperative to our being a Government instead of just a bunch of administrators. I am sorry to see him leave.

Chairman PROXMIRE. I am delighted that you brought that up, Mr. Secretary. I have the greatest admiration and respect for Mr. Ross. He has done a superlative job. He has certainly won the confidence of