At least two other reputable forecasting groups, however, have developed detailed projections for 1968, with and without the surcharge assumption. They are the Research Seminar in Quantitative Economics of the University of Michigan and the Econometric and Forecasting Unit of the Wharton School of Finance and Commerce of the University of Pennsylvania. Both of these groups develop their forecasts through the use of econometric models (systems of equations) carefully designed to project the fututre performance of the economy on the basis of past experience. The Michigan group, which has been making forecasts for a long enough period to permit evaluation of their reliability, has an outstandingly good record.

The findings of these groups do not agree in every detail. Despite the great progress made in recent years, forecasting is still more art than science. Significance must be attached, however, to the fact that the conclusions of both the Michigan and Wharton School groups are widely at variance with most of the Council on the two most crucial points. The first is the effect of the surcharge on employment and unemployment. The second is the effect of the surcharge on the price level.

The findings of both the Michigan and Wharton groups show that the surcharge would involve a heavy cost in unemployment (and GNP) in return for only a negligible gain in price stability.

MICHIGAN PROJECTIONS

Certain of the assumptions made by the Michigan group (e.g., an increase in social security taxes from 4.4 to 4.8 percent) are now out of date. But the relevant general tendencies implicit in the forecast would not be affected by revision of those assumptions.

The Michigan model yields a 1968 GNP of $705.4 billion (in 1958 prices) assuming that the surcharge is not imposed and that monetary policy is consistent with a 3-month Treasury bill rate of 4.5 percent. Another projection which, in order to determine the effects of tight monetary conditions, substitutes 5 percent for 4.5 percent in the latter assumption, yields approximately the same GNP—$704.4 billion.

A third projection, with assumptions the same as in the first described above except for the addition of a 10-percent surcharge on personal and corporate income taxes, yields a GNP of $692.5 billion. Thus, enactment of the surcharge would reduce GNP for the year by $12.9 billion of 1968 purchasing power. The equivalent in terms of fourth quarter 1967 dollars would be $15.3 billion (probably close to $16 billion in 1968 dollars).

The three Michigan projections also show that the surcharge would be far more costly in terms of employment than has been indicated by the Council which, as previously mentioned, has stated that the surcharge wou'd reduce employment growth in 1968 by 150,000 jobs. According to the Michigan model, the cost in 1968 would be 800,000 jobs—more than five times as large as the Council's estimate.

According to either of the projections which assume to surcharge, civilian employment would be 75.6 million. Addition of the surcharge to the first of the projections described above would reduce employment to 74.8 million. Unemployment would be 800,000 to 900,000 higher with the surcharge than without it. (The range is apparently