for office, there is more than just a psychological effect on voters when their taxes go up in an election year.

Mr. ACKLEY. But there is surely a strong psychological effect on corporations when their markets suffer because of a reduction in Government contracts and expenditures. Think of the effect on retail markets in the city of Washington if the number of Federal employees is reduced. I would continue to contend that they have the same economic effect, both immediate and in terms of their feedback, and that the choice between these two has to be made on other grounds than that of securing the proper degree of restraint against inflationery pressures.

Chairman PROXMIRE. Thank you very much.

Congressman Curtis?

Mr. CURTIS. Mr. Chairman, I was concerned when you suggested that these estimates of the deficit for fiscal 1969 were above $20 billion. Let me tell you how we in the Ways and Means Committee reached $29.2. We started with the revised budget deficit of $11 billion, then included the Treasury's own lowered estimates of revenues—down by $1.2 billion as I recall it. Then our Joint Committee on Internal Revenue staff estimated that the falloff in revenues would be another $2.5 billion. There was quite a bit of discussion by the Treasury people and finally the conclusion, as I understand it, was that they thought that this was a more reasonable figure in the light of what had transpired since Treasury made their original estimates.

Then there is $5 billion that is in the budget which could be realized from the sale of participation certificates. This contingency has almost come about already by Congress refusing to grant the authority that the Executive wanted in the sale of these participation certificates. One item that you did mention, a $5 billion increase in defense spending was based on what was already in existence. It was also the judgment of Senator Stennis when he appeared before this subcommittee when we were going into the cost of Vietnam, and it was the judgment of the appropriations people in the House, although they have revised their figures upward as I said. But at any rate there is an additional $5 billion there. There is also the $5.5 billion which is in the budget for increased taxes which is, of course, partly what we are talking about, because if we did increase the taxes by $5.5 billion the deficit would only be at $24.7 billion. But inasmuch as in the budget we use the July 1 date on the assumption that these tax increases would be enacted by then, this is not an unreasonable contingency to contemplate.

So I think, if I may say so, Mr. Ackley, that these estimates are not extreme or preposterous at all. The administration, although not putting its stamp of approval on them, certainly accepted these estimates in telling us what was needed in the debt ceiling.

I think that from an economic standpoint we have to be thinking in terms of prospective deficits in the nature of $29 billion—how much of that from an economic standpoint should be absorbed by increased taxes and how much by deficit financing? Even if you sold the participation certificates, that would have an impact on the financial markets. I am sure you will agree. The administration just last year had the power to sell PC's, but held back because of their desire to avoid a deleterious impact on the private capital market—the demand in the housing industry and so forth. Would you care to comment on what I have just presented?