economy turns out to be exuberant, I think a tax increase would not do very much damage.

On the other hand, if the economy should turn to continue to be sluggish, then there is a real question from the economic point of view.

I think Mr. Katona has stated very clearly that you would have a reduction in the real purchasing power.

Chairman PROXMIRE. I don't mean to interrupt except that I want to make sure I understand. You feel that there is a possibility that even if we do have expansion in Vietnam, it is possible that the economy may continue to be sluggish, you may still have enough resilience in the economy so that you don't have this pressure on prices and interest rates that we are all so fearful of and want to prevent?

Mr. PARADISO. This question is more complex than that. The price question hinges on what will develop in the farm area and this is very important with respect to food prices. It does appear now that the food prices may not go down as they have in the last several months and that there may be a firming up. With regard to industrial prices there are problems.

Chairman PROXMIRE. Food prices are not going to be affected much by fiscal policy anyway, are they?

Mr. PARADISO. It is a consideration by the consumers with regard to what they will do. In connection with the industrial prices, here the problem is to what extent can the producers offset higher costs. This depends on the competition, the extent of competition, and simply what they get with regard to productivity. The problem here is that they will attempt to maintain their profit margins if they can. I think there is a real problem here with respect to the price trend. Just because the private economy should continue in a sluggish pace—and I am not saying that this is so—in my statement I indicated that there would be an acceleration.

Chairman PROXMIRE. You are putting it very well. I should have confined my questions to the effects on demand, the fiscal effects of the policies we are talking about rather than what is actually going to happen to prices, which I realize are a function of a lot of other things, including weather, including what happens in this very complex agricultural economy we have.

Mr. PARADISO. I simply repeat that if the economy accelerates in the second half, I don't think that the fiscal effects will be very damaging. I don't think there will be much effect coming from that. On the other hand, if the economy continues to be sluggish, then I am really very much concerned.

Chairman PROXMIRE. Unfortunately, I have to leave. Before I do, I would like to ask Mr. Gaines this question. In your judgment, Mr. Gaines, because you are an expert in the monetary area and the effect of all this on the interest rates, if we do not increase taxes and if we have a substantial deficit, $15 billion or $20 billion, would it be feasible for the Federal Reserve Board to follow the policy that you suggested here of keeping interest rates down by open market operations—long-term interest rates down at least?

If the economy continues to be as sluggish or stable, however you want to put it, in spite of the big Federal deficit, technically what problems develop when you try to adjust this way?

Mr. GAINES. Yes, I think a direct answer is that it would be feasible. The problem that the Federal Reserve has run into so far