

Mr. SUMICHRIST. This is the major concern of ours because if a deficit is going to be large and if the Government is going to have to raise a large amount of money and if Mr. Gaines is correct in saying that the short-term money markets are going to be firmed, this would mean virtually a turnaround in the flow of savings into the savings institutions or at least the rate of increase will slow down considerably.

Right now the flow of funds is very high, but there is a problem of repayments. I am talking here about savings and loan associations. They repaid about \$2½ billion in the first 2 months of this year. They have to build up their liquidity so that we need the second half to get further funds into thrift institutions.

If we don't get it, I would guess that we will have to face another similar situation as we had last year.

Representative CURTIS. Let me ask this, and then go back across the panel. The mix that is presently in the budget message is \$13.4 billion to be financed by new debt securities, \$5.5 billion by new taxes, and \$5 billion by sale of participation certificates. Suppose, instead of selling \$5 billion in participation certificates, we had \$18.4 billion of new debt securities and \$5.5 billion of new tax revenues. Would that ease the picture at all, or would that tighten it, and make it worse for the housing industry?

Mr. SUMICHRIST. Well, any tax increase, of course, will not help us.

Representative CURTIS. It would or would not?

Mr. SUMICHRIST. It would not help the buyer. As Mr. Katona already indicated, individual disposable income gets smaller so that there may be a tendency on the part of the consumer to postpone purchasing. However, the situation is not clear at the present time, and I don't know whether anybody really knows what will happen in the second half. If the predictions are correct—

Representative CURTIS. Wouldn't it ease the problem in interest rates in the finance market to have less of the deficit financed by new Treasury certificates?

Mr. SUMICHRIST. I think what we need is a mix of fiscal and monetary policy. What form this will take I don't know. The situation is not very clear to us. The only concern we have is that we have mortgage money available and either way you slice it, it all comes out of the one pool of funds which we have; namely, household and corporate savings. If the Government is going to be there raising money and the corporations are going to be there raising money, the mortgage market, being a residual market, never has the same power to attract capital the way other segments of the economy have. So that this is our concern.

What will happen to yields in the short-term market will eventually determine what will happen to the flow of funds to the savings and loan institutions. This is what we are concerned about.

Representative CURTIS. Let me ask Mr. Gaines this general question. But first, to be specific, is it true that it does make a difference whether the Federal Government issues \$5 billion in new debt securities or sells off \$5 billion in participation certificates because it would go to a different market?

Mr. GAINES. Yes, sir.

Representative CURTIS. What do you think about the impact of the mix, of how we might finance a \$23.9 billion deficit on interest rates? If we financed the whole \$23.9 billion out of Treasury securi-