

ties, that would create a greater burden on interest rates, would it not, than if we got \$5.5 billion out of new taxes and another \$5 billion out of participation certificates?

Mr. GAINES. Certainly the tax increase would help to alleviate the pressures on the credit markets, for obvious reasons. It would reduce the amount of financing the Treasury has to do. The answer is not quite as clear cut as between using direct Government debt or the participation certificate route.

The bulk of the participation certificates that have been sold have been longer term. If there is a logical reason for the Treasury using this route, it is to avoid the 4¼-percent ceiling on Treasury bonds. If we assume that the larger part of the participation certificate financing would be in the 10- to 15-year range, that would compete directly with the other institutions, including the housing industry, that are seeking long-term funds and to that extent would have a direct upward pressure upon the longer term interest rate structure.

On the other hand, if there were no participation certificate financing and that \$5 billion took the form of direct Government debt, one must assume that the securities the Treasury would use would be shorter. This would put upward pressure on short-term market rates, which could then lead to the problem of the withdrawal of savings funds out of the various institutions and thereby reduce their ability to take on long-term commitments and indirectly lead to almost the same result as selling the long-term securities directly to the market.

There is no answer to what the net effect would be. I think the simple answer is that there is too much debt to be sold, and whatever form it takes, we are going to have serious problems for the housing industry and the credit markets.

Representative CURTIS. You see the problem presented to the Congress right now. Mr. Martin, the Chairman of the Federal Reserve Board, said we ought to move forward to a tax increase now and that it should be even greater than the 6-percent surtax; in other words, we should finance more than the \$5.5 billion of the \$23.9 billion deficit out of new revenues. Mr. Mills, the chairman of the House Ways and Means Committee, during the debate on the debt ceiling expressed this view somewhat along the line of the view of Chairman Proxmire.

He said:

I would consider a tax rate increase if I thought we were going to get more revenue, but if increase in the tax rates was going to have a deleterious effect on the economy, we could end up with less revenue.

So here is the fiscal problem that is put in the lap of the Congress. This is not for comment from this panel, but the Executive gives the Congress and the people no advice and just tosses the problem out, saying, "Do what you please with it," without giving us their judgments on the proper timing of the tax increase.

Now, if the panel would comment on what, if any, increase in taxes the Congress ought to enact to ease the problem that otherwise would be created in the money market, I think that would be helpful.

Mr. KATONA. The studies about the probable forthcoming consumer demand in the second half of 1967 suggest that there is, first, no reason for enacting a tax increase right away; it can be postponed.

Second, there is no reason to finance a substantial part of the deficit through higher taxes. The 6-percent proposal I consider as the maxi-