

But I should like to be responsive to your particular question, if I understand its implication. How much the Government collects in taxes by change in tax rates does have a direct influence on how much public debt has to be floated in the market, and on exactly what the competition for funds will be as between other uses of funds. So taxation is not a neutral matter. Tax rate increases have consequences, both upon (1) the *current flow* of income, and (2) upon the composition and balance-sheet stocks of securities and their yields.

Mr. WESTON. I think one should recognize in this connection that the fears of a crunch in the fall similar to the crunch that occurred in 1966 in the fall have already produced a crunch in the late spring and early summer in the long-term capital markets. This has already taken place on an anticipatory basis, so that in this sense the capital markets are fighting the last war in terms of fighting the crunch that occurred last fall, the fall of 1966, by trying to anticipate it early and certainly by seeking to free themselves of dependence on bank credit in order to have availability of funds, even going out and paying very high rates at the present time.

What actually will transpire in the fall, I think, is a combination of a number of influences. I think the fact that such a crunch has already taken place is a favorable factor. As is so often the case, you get an overshoot, and we probably are experiencing an overshoot in terms of raising long-term bond money which will be a positive influence in terms of pressures on the market to avoid competition with the Federal Government when it does come into the market. But again, the level of the economy itself in the second half will be higher, which will have an impact on the productivity of the revenue system, the level of the revenues coming in regardless of the timing of the tax increase. But then again the timing and the amount of the tax increase is another variable, and of course the various forecasts of the rate at which spending may increase in the defense and nondefense areas, and finally the whole tone of monetary policy.

Now, the monetary authorities have indicated that the demands on the long-term capital market have been such in the last several weeks that No. 1, they were unanticipated by the Fed; and, No. 2, they were so massive that the Fed was powerless to prevent long-term rates from rising. I think one can be sympathetic about the first point, that to some degree these were unanticipated; but I don't think that one can agree that the Fed was powerless to forestall the increase in long-term rates.

There exists some level of open-market operations by the Fed that would have forestalled it even with some lag, and this is a matter of determination rather than power on the part of the Fed. It probably reflects the view that the economy is moving into a very strong period which has stayed the Fed's hand in taking actions to prevent the long-term rates from rising in the present circumstances. I think that the rise in the long-term rates is not so much a measure of the Fed's lack of power, but rather a measure of the Fed's judgment of the economic situation.

Representative WIDNALL. May I just ask you both the same question? Do you believe that a tax increase, if effected this year, should be across the board and shared equally by corporations and individuals?