

Mr. BYRNES. Is that any reason to use PC's to borrow directly at a higher rate of interest?

Mr. SCHULTZE. Mr. Byrnes, the logic is there. If you believe the Federal Government should finance everything it does through the Treasury because the Treasury is cheaper—

Mr. BYRNES. We are trying to reduce this deficit. At this point we are \$19.9 billion in the hole, and the Secretary says, "You would help us reduce this deficit if you will let us borrow money by selling participation certificates"—paying higher rates of interest on them. I say it does not reduce anything.

Mr. SCHULTZE. Mr. Byrnes, we are trying to come down from the \$29 billion or \$28.3 billion deficit to a \$14 or \$18 billion range and you are quite right that \$2 billion of this reduction has a minimal impact on the market, although, as the Secretary says, it should have some psychological impact. So in the total range we are talking about, it is admittedly true that \$2 billion of the difference has a much smaller impact on the market compared to the rest of the difference. That is quite true.

Mr. BYRNES. I must say that shifting from direct borrowing to participating certificates bearing higher interest rates is a great effort to cut back on expenditures.

Secretary FOWLER. This is something we have been over time and time again. I would only say I still see a difference between regular borrowing to finance current expenditures and PC's to finance repayable loans. Now, there is a difference. Maybe we can't quite agree as to what the difference is, but there is a difference. It is a psychological difference and a meaningful difference.

Mr. BYRNES. But regardless of what we do with PC's, you are going to go to the market for \$2 billion, aren't you?

Secretary FOWLER. Either that or through the Treasury.

Mr. BYRNES. Right, so the manner of handling PC's doesn't change the amount you are going to the market for, does it?

Secretary FOWLER. Not a bit.

Mr. BYRNES. It doesn't change any of the problems that are created and which you pointed out to us in your statement at some length, Mr. Secretary, the problems of credit and—

Secretary FOWLER. You can just write off pages 13 through 28 of my statement as far as this \$2 billion is concerned, but they are very, very applicable to the \$7.4 billion involved in this tax increase. They are also very applicable to the billion of additional for the pay bill. They are also very applicable to any expenditures that are reduced beyond that.

Mr. BYRNES. The PC's have some relationship to the pay bill?

Secretary FOWLER. No; I say those pages from 13 to 28, you and I can agree that they have no particular applicability to the PC's.

Mr. BYRNES. All right. That is some progress. Let's see what we are going to do next, then. I don't really know how to record this \$2 billion attributable to PC's in our calculations.

Secretary FOWLER. In the deficit, the way we keep our books, it is down to \$17 billion.

Mr. BYRNES. You are still going to have to borrow \$19.9 billion but you want me to put it down in the table as getting you down to \$17.9 billion. I disagree with that, but for purposes of discussion, let's get together again at \$17.9 billion.