I have with me William F. McKenna, who is general counsel of our organization.

Mr. ULLMAN. We welcome you before our committee, Mr. McKenna.

Mr. MCKENNA. Thank you, Mr. Chairman.

Mr. HEISLER. I am appearing before you today to present testimony in support of President Johnson's recommendation that the Internal Revenue Code of 1954 be amended to increase taxes. The amendment would impose a 10 percent surcharge on individual Federal income tax liability, to become effective on October 1, 1967, and a 10 percent surcharge on corporate Federal income tax liability, to become effective as of July 1, 1967. It would also speed up collection of corporate taxes and continue certain excise taxes at current rates.

In his message to Congress on August 3, the President noted that without a tax increase and tight control of Federal expenditures, a large deficit could be anticipated for the fiscal year ending June 30, 1968.

Among the probable adverse effects of such a deficit, he listed "brutally higher interest rates and tight money which would cripple the home builder and home buyer, as well as the businessman." He noted that interest rates have already turned up sharply despite the relatively easy money policy being followed by the Federal Reserve System.

In the consideration of this legislation, we must clearly recognize that we are faced with a condition, not a theory. The Federal Government is confronted with the prospect of a deficit of unconscionable proportion. Estimates of this fiscal year's deficit range around $29 billion. Even in an economy as dynamic and diverse as ours, a deficit of this size cannot be tolerated.

A firm, straightforward attempt has to be made to bring the financial affairs of the Federal Government within prudent and digestible fiscal housekeeping tolerances. In view of the budgetary conditions that confront the Congress, there are no reasonable alternatives to (1) an increase in income taxes, and (2) a reduction in spending on nondefense programs.

Action upon both fronts is required and necessary. Recourse solely to an increase in taxes would be insufficient to attain the objectives desired, unwise as a matter of public policy, and inequitable to the taxpaying public.

As is well known to every member of this committee, the thrift and home financing business underwent a painful belt-tightening ordeal last year. It was not of our choice or of our making. We are not anxious to have our 1966 experience repeated to the same degree of severity.

Nonetheless, we went through the ordeal and made the adjustments that had to be done, I can assure this commitee that the most objective observers of the American social, political, economic, and financial scenes would agree that the thrift and home financing business bore an unduly disproportionate share of the burden in 1966.

Thrift institutions basically depend for economic life on the spread between what they pay for money in the form of dividends on savings accounts and what they receive from investing that money in home mortgages.