

The CHAIRMAN. Mr. Mitchell, you are recognized.

Mr. MITCHELL. Mr. Chairman, I have with me this morning Mr. Stephen Slipher, legislative director of the U.S. Savings and Loan League.

The CHAIRMAN. We are glad to have you with us, Mr. Slipher, as well.

Mr. SLIPHER. Thank you, sir.

The CHAIRMAN. You are recognized, Mr. Mitchell.

Mr. MITCHELL. Mr. Chairman, we appear before this committee in general support of the administration's proposal for a surcharge on personal and corporate income taxes. Basically, we want to express our concern about the prospect of a \$25 to \$30 billion Federal deficit in the coming year which could well be the result if corporate and personal income taxes are not increased in the near future. We share the view of Secretary Fowler that a deficit in the area of \$25 to \$30 billion would be intolerable.

Our interest in the tax legislation before this committee stems from the interrelationship of tax policy upon the credit markets in the American economy, in general, and the real estate mortgage market, in particular.

Certainly, the developments of the past 2 years make it crystal clear that Federal spending and tax policies determine to a large extent whether the housing industry and the home buyers of America will share proportionately in the supply of credit available in the American economy.

Two years ago, in mid-1965, the decision was made to escalate the American military effort in Vietnam and the credit markets and, most notably, the mortgage market have been in a general state of uncertainty since that time. As the Members of Congress remember, the strong uptrend in the private sector of the economy in the second half of 1965 produced obvious inflationary measures and a pattern of rising prices, higher wages, and increased costs of goods of all types.

As a first step to counteract inflationary forces, the Board of Governors of the Federal Reserve System boosted the discount rates from 4 percent to 4½ percent and interest rates allowable on time deposits from 4½ percent to 5½ percent in December, 1965.

When this and prohibited steps failed to slow excessive and inflationary demands for credit, the Board of Governors 6 months later took steps to tighten the supply of money and credit available in the economy. The result was the tight money crisis in the late summer of 1966 and the highest short term and long term interest rates in over 40 years.

We said then and we are of the same opinion today that high interest rates and tight money, alone, fall short of an adequate program to combat inflation.

We said then and we are of the same opinion today that added emphasis on fiscal policies, including higher taxes and reduced spending, though temporarily uncomfortable, is vitally needed when the country is burdened with costly military operations.

We said then and we are of the same opinion today that virtually complete reliance on monetary restraints to fight inflation places an unfair and uneven burden upon the homebuilding industry and upon American home buyers.