

This disproportionate impact on housing was dramatically underscored by a Department of Commerce study being released this week. According to the Associated Press (Wednesday, Aug. 23, 1967) the Commerce Department found that the "1966 money crisis" overall impact was 'quite small.' But the press story went on significantly:

The Department said that the "shock effect" fell on housing which was undercut by \$2.5 billion or 10 percent of 1966 spending for residential construction.

The story goes on to cite numerous other sectors of the economy which suffered little or no restrictions as a result of "tight money." Plant and equipment expenditures actually increased 16.7 percent in 1966. Inventory investment declined only 4 percent because of "tight money."

No one can predict with complete assurance that a tax increase will avoid some higher interest rates and continued inflationary pressures in the economy. On the other hand, we are afraid that in the absence of a tax increase or massive reductions in Government spending there will be very high interest rates and a serious, if not severe, inflationary problem as well as great dislocations in the money market.

Currently, as every American household is aware, there is already substantial inflationary pressure in the economy with price levels having increased rather rapidly since the first quarter of 1966.

If the Treasury has to finance its deficit without the creation of a great deal more credit by the Federal Reserve, the result will be intolerably high interest rates, and the cost of sharing the deficit and the cost of our Military Establishment would be borne most unevenly—essentially by those least able to pay higher interest costs—the home owner and the typical American family that uses credit.

There has been some concern expressed before this committee that a tax increase of the magnitude proposed by the administration would aggravate the slowdown which became apparent in some phases of the civilian economy early this year.

I do not appear before you as an economist, and am not competent to pass judgment on the action of whether a tax increase would trigger a recession that would result in the collection of less in the way of Federal revenue.

I do know, however, that a return to very high interest rates will strike another severe blow at the homebuilding industry just at a time when housing industry is beginning to recover from the sledge hammer blows it received last year as a result of high interest rates and the sharp decline of money available for home buying and homebuilding.

So far as the homebuilding industry is concerned and the mortgage sector of the economy, it is clear that a tax increase would have less of a depressing effect than failure to cover at least part of the forthcoming Federal deficit with an increase in income taxes.

We commend the efforts of Members of Congress to reduce spending. Whether Government spending can or will be reduced \$1 billion, \$2 billion, or \$5 billion is not within my area of knowledge. Even with a reduction of Federal spending and an increase in income taxes so that the Federal deficit will be in the range of \$15 billion, there would still be extensive competition for the housing market from the Treasury. It would not, however, be nearly as disruptive as a \$30 billion deficit or even a \$25 billion deficit.