Senator MILLER. I take it that you are not in favor of taking purchasing power away from the people by way of inflation.

Mr. MARTIN. I am dead against it.

Senator MILLER. That being so, Mr. Chairman, how are we going to avoid doing that if we have the tax increase that is proposed and still end up with a budget deficit of $8, $9, $10 billion this year?

Mr. MARTIN. Well, we have ultimately to balance our budget. This is the problem. Of course, there are different budgets. I am not going to get into the three budgets. I happen to agree with the economists that it is the national income accounts budget that is the one we ought to be concerned about. We do need a lot of education on this budget.

Senator MILLER. Secretary of the Treasury Fowler testified here the other day that the administrative budget is the one we need to worry about insofar as financing a deficit is concerned.

In other words, it is the $8 or $9 billion administrative budget deficit which is going to have to be financed, and since there is a relationship between that and inflation, I would think that insofar as the financing of the deficit is concerned, you would be very concerned about the administrative budget.

Mr. MARTIN. And I am. This is why I applaud the President's action in seeking a tax increase. If you take an administrative budget deficit of $8 billion and you do not get this tax increase, the deficit goes up by $4.6 billion right away, and if you didn't sell all the participation certificates it is another $5 billion, and if you don't get this postal rate increase through it is another $700 million, so that we are talking about some pretty large figures.

I think at some point, deficits have to be brought under control. I thing the Secretary is quite correct when he talks about this tax being designed to pay for the war in Vietnam, and to keep the budget in reasonable relationship.

The Government has to pay its way. When it runs a deficit it has to either raise taxes to cover it, or it has to borrow, and if it borrows it is putting pressure on the money market to be sure.

Senator MILLER. And in turn, over a period of time at least, that brings about a foundation for inflation.

Mr. MARTIN. Exactly.

Senator MILLER. Then would it be fair to say that in evaluating the budget, which calls for a small tax increase on the one hand, but it also on the other hand calls for a budget deficit of rather a substantial figure, that this represents sort of a straddle position that purchasing power will be taken away in part by increased taxes and in part by inflation?

Mr. MARTIN. I would hope not. I would hope that the improvement in the economy would produce the revenues. We did have an increase in revenues last year. We were moving in the right direction there, with the acceleration in the economy. It was only when we got a GNP deflator of 4 percent that we were losing the advantage of rising income.

Senator MILLER. May I say I share your hope, Mr. Chairman, but is that hope a very rosy and optimistic hope?

Mr. MARTIN. Only time will tell.

Senator MILLER. Now in your statement you call attention to some economic facts, and state: "This was an impressive performance, one in which we all can take some satisfaction."