Chairman PROXMIRE. Well, that may be, but that would argue, on the other hand, that either you are going to have prices go up, which we didn't have, or you are going to have unemployment develop, which we didn't have. In other words, the Government adopted a policy of reducing profits deliberately.

Mr. HAGEDORN. Yes.

Chairman PROXMIRE. And unemployment stayed down.

Mr. HAGEDORN. Well, in a wartime situation like that—you still had the Korean war.

Chairman PROXMIRE. It was over. Furthermore, we have a wartime situation now.

Mr. HAGEDORN. But a much smaller percentage of the national product is being devoted to war.

Chairman PROXMIRE. It is smaller; yes.

Mr. HAGEDORN. At this time.

Chairman PROXMIRE. Yes. Well, it's an interesting thesis and I think there is a lot to be said for the notion that if you do stimulate business to expand and grow, this obviously can provide jobs. I think that thesis makes sense from a logical standpoint. Senator Miller?

Senator MILLER. Thank you, Mr. Chairman.

Mr. Hagedorn, I share with you the desire to have a reasonably balanced Federal budget as a means of avoiding further inflation. I invite your attention to the fact that for the coming fiscal year, 1968, which we are now involved with in our appropriations and our revenue estimates, the President's budget forecasts an $8 billion deficit.

Now in order to hold it down to $8 billion, he estimated a $5 billion sale of participation certificates, a $5 billion tax revenue from the 6-percent surcharge, and $700 million from a postal rate increase.

I don't know whether you favor a postal rate increase or not, but that is relatively small in the overall picture, but I would point out to you that all of these added together, in other words, a $8 billion deficit estimate, and if the Congress does not go along with the postal rate increase, and if it does not go along with the tax increase, and if the participation sales are not accomplished, this would bring us to a deficit of $18.7 billion.

Now let me ask you first, do you favor this participation certificates sale of $5 billion?

Mr. HAGEDORN. Let me answer that question this way. The sale of participation certificates is not necessarily wrong, but the extent to which it should be done depends on the situation in monetary markets. What shouldn't be done is to pretend that this is offset to spending. It's a form of Federal debt, and has the same impact on using up capital resources of the country as the sale of Federal debt. We shouldn't be deceiving ourselves, by pretending that this is a reduction of expenditures.

Senator MILLER. I agree, but the point I am making is that if you are interested in avoiding a pressure on the capital market, which will result in an increase in interest rates, then you are interested, I presume, in not having the sale of participation certificates.

Mr. HAGEDORN. Well, if you didn't sell the participation certificates as a result of not needing to because of curtailment in other forms of Government spending, why yes, that would be something accom-