this: That in his judgment retail sales are based more on credit than on present dollars, and credit is based on confidence, and that confidence can be destroyed by a number of psychological factors. He feels that if the people of this country, who are some of the best informed people in the world, see that there is a huge deficit, a big war to pay for, and the Government fails to do what it should, particularly now that the President has said do it, that it could be that there would be only one conclusion they could come to as to why the Government wouldn't do it.

They would be fearful of the future, fearful of the economy, and therefore this destruction of public confidence and of the credibility of its own Government for doing something that it knows it should do, might be more of a depressant on retail sales than it would be if you just went ahead and did what you should do and raised taxes.

Now, this caused me to go back once again and let me take another look at this whole tax increase picture and I have asked Mr. Lazarus to write me in greater detail so that I can discuss it with the chairman, whom I know is earnestly seeking a right answer on this, also.

Would you care to comment?

Mr. BACKMAN. I think that is an interesting reaction in terms of alternatives. Despite the fact that it would support my position, I don't think I can go along with it completely. The history of retail sales is one of close relationship to consumer disposable income with temporary aberrations, for whatever the psychological forces may be, and when I say temporary, it might be 3 to 6 months. The reason why economists are concerned about any rise in taxes is that disposable income after taxes would be a little less and therefore the amount that could be bought presumably would be a little less.

On the other hand, if this reduces the pressures on the money markets because that $5 billion must be obtained in some way—it is not the $5 billion or nothing, it is the $5 billion or something. If the government must come into the money market to borrow another $5 billion and create pressure on interest rates, the peak of which I think already has been seen, then this also costs the consumer something. So I think one must look at the whole picture.

I am inclined to feel that a continuation over time of large deficits without doing something about it in a period even like 1967, can undermine confidence. You have to say to yourself, if the Government can't come closer to paying for the things it must buy, when we have a gross national product of $770, $780 billion, when are we going to do it? And I think the answer under those circumstances almost becomes it looks like never, and if it is never, then you can have a serious impact on confidence.

Chairman PROXMIRE. May I just ask you, Mr. Backman, if it isn't true, under the circumstances, if the economy is tired and there is slack in the economy, resources available, people looking for work, what you simply do is to finance that $5 billion by open market operations by the Federal Reserve Board. In other words, to put it bluntly, the Federal Reserve Board buys $5 billion worth of securities. I would agree that that would be the worst possible kind of——