it more easy to operate in what we might call a return to normalcy, I hope.

Senator PROXMIRE. The notion is also of course if you reduce the deficit by increasing taxes and reducing spending, reduce the Federal demand for funds, you therefore reduce interest rates.

Mr. MCKENNA. Yes, sir.

Senator PROXMIRE. The difficulty is as you raise taxes you may reduce economic activity so much that revenues drop rather than increase. That is perfectly possible. It happened in the past. It happened in reverse as recently as 1964 when we reduced taxes and then revenues increased. It is difficult to make dogmatic judgments on this. It seems to me that the argument that we have to operate in the area of trying to get more funds available into housing by such techniques as the bill that is before us now, and by trying to urge the Federal Reserve Board through some kind of legislation, some kind of congressional decision to act to provide more funds for the housing industry.

Mr. MCKENNA. Senator, I think you put your finger on one of our big elements of competition. We could, it is true, have competition with our friends in the commercial banking field. We have even more competition with the Federal Government. When you take an example of the participation certificates that were floated recently, FNMA, with rates up in the 6.34 bracket, that is way above what we can economically offer for savings in today's market. It is true that an increase in taxes would make it less necessary for the Government to go to the public market and create that demand for high interest rates. This is one of our hopes, obviously. And in the other field, if the Federal Reserve does not make more use of the authority that it now has, even though the authority technically is good, it seems to me we must search for some other method of getting money into the home finance field.

Senator PROXMIRE. Thank you very much, Mr. McKenna, for your very helpful testimony.

Mr. MCKENNA. Thank you.

Senator PROXMIRE. Senator Brooke?

Senator BROOKE. Your group has profited from this legislation?

Mr. MCKENNA. From the legislation?

Senator BROOKE. Yes.

Mr. MCKENNA. That is a debatable issue. The Chairman of the Home Loan Bank Board feels very sincerely that is true, by potentially, I guess, allowing more savings to flow into the savings and loan system but many of our members don't agree with that theory.

Senator PROXMIRE. There isn't a question about it. Without this legislation the banks would be able to offer rates that would be higher. They would attract savings to the banks. You have a differential. You are able to offer a higher rate than the banks.

Mr. MCKENNA. We have a differential but in spite of the differential, because of the other strings tied to it, it doesn't seem to attract money from the public as much as the bank 90-day time deposit.

Senator BROOKE. Wouldn't the situation be worse without the benefit of this legislation?

Mr. MCKENNA. It is difficult to say. I realize that I am at the moment defending the opportunity for the savings and loans to show in the market what they can do. There are many in-built regulations. Usury