Mr. MITCHELL. I think a lot depends on the economic environment at the time whether you can achieve this. If the Government is running a $20 billion deficit and all of a sudden you are going to have the Federal Reserve sell $5 billion in Government securities, it is not a very practical operation, but if the Government were in a more balanced position, maybe it would be more feasible.

Chairman PROXMIRE. That brings me to the last question I want to ask you this morning. That pertains to this situation:

Assume that the Congress does pass the tax increase and the more substantial spending cut of $6 billion, a $10 billion appropriation reduction, do you foresee that this could have a significant effect on easing the monetary situation?

Mr. MITCHELL. If they did pass it? Did you say if they did pass it?

Chairman PROXMIRE. If they do pass it. Say it is put into effect on June 1.

Mr. MITCHELL. I think Mr. Brill is better able to comment on the effects on the markets. I think interest rates expectationally would drop rather significantly.

Chairman PROXMIRE. Do you think interest rates would drop?

Mr. MITCHELL. Yes.

Chairman PROXMIRE. Significantly?

Mr. MITCHELL. Yes. I think that would be the first reaction.

Chairman PROXMIRE. Mr. Brill?

Mr. MITCHELL. And I think also that the financial flows into the——

Chairman PROXMIRE. How promptly would that drop come about in your view, if we pass it on the 1st of June? Will you get a drop this summer or fall?

Mr. MITCHELL. Oh, yes, you would get it sooner than that.

Mr. BRILL. I would suspect it would be significantly sooner than that. I do not think we can pinpoint it to weeks, but the reversal of market expectations is the initial impetus that will be felt.

Chairman PROXMIRE. The principal reason is because this would reduce the deficit and the Federal Government therefore would not be out on the market bidding up interest rates by trying to sell obligations?

Mr. MITCHELL. People would be trying to take advantage of the existing level of interest rates on the assumption it was going to get lower.

Chairman PROXMIRE. I see.

Mr. MITCHELL. And so they will push the rate down quickly.

Chairman PROXMIRE. You would have, not a deflationary but a noninflationary attitude?

Mr. MITCHELL. It would change their whole attitude, their whole time horizons with respect to the level of interest rates, and they would say, "I am going to get as much as I can with these rates because later on I cannot." And that should bring rates down pretty fast.

Chairman PROXMIRE. Do you want to add something, Mr. Brill?

Mr. BRILL. As I said, I think the expectational effect would be the initial impact. Subsequently, it would depend on the volume of flows, whether there was pick-up in borrowing by the private sectors. Of course initially, even with the proposed legislation, Federal financing