

demands rise seasonally at this time of year, so the flows for a while would still be high, but there would be such a change in market attitudes that—

Chairman PROXMIRE. It is funny, you would stress attitude and expectations. There is a strong expectation now, I think a view that there is about a 3-to-1 or 5-to-1 chance that this tax package will go into effect rather promptly. It may not be \$6 billion, it may be 4, but it will be close to it and it will have close to the same effect.

You would think the market would discount this.

Mr. MITCHELL. The market has been disappointed too many times. They have discounted four or five times in the past. Nothing happened and they got shellacked so they are not going to do it this time until they see the whites of its eyes.

Chairman PROXMIRE. The conferees have agreed to this. They want to wait until the President actually puts his signature on it.

Mr. MITCHELL. I think that is right. I think it is because they have been burned on it before.

Chairman PROXMIRE. You think it would be that significant and decisive?

Mr. MITCHELL. I think so.

Mr. BRILL. It removes a very substantial amount of potential borrowing.

Chairman PROXMIRE. What would the Federal Reserve Board do to accommodate to this? Anything?

Would you expect a change in policy under these circumstances?

Mr. MITCHELL. I do not think I could really say much about that until you have a chance to observe the environment.

The only thing I would feel fairly sure about now is that the interest rate structure would change, and this is going to have some effect on the competitiveness of the intermediaries against the market. By that I mean that inflows of savings funds into the savings and loan associations, at the rates they are presently offering would probably rise and they in turn, coming into funds of this sort, would be willing to enter into more commitments.

Chairman PROXMIRE. Where is this money coming from?

People's incomes would be reduced by the tax increase, and by the spending reduction.

Mr. MITCHELL. There are tremendous flows of funds from repayments of mortgages, as you know, that have to be reinvested.

Chairman PROXMIRE. They would be coming in anyway?

Mr. MITCHELL. The flows of funds are enormous, and at the margin they are large enough to have very substantial effects on rates.

Chairman PROXMIRE. That is very interesting and very, very helpful.

Thank you, gentlemen.

Senator Miller?

Senator MILLER. I just wanted to ask a couple of questions on this point.

As I see it, we are faced with a \$30 billion budget deficit for the next fiscal year, and if Congress does indeed pass this package, we will be getting about \$10 billion more in revenue and \$6 billion reduction in spending, we would still end up in the neighborhood of a \$14 billion budget deficit.