

come through yet further expansion of the trade surplus. That is why the Government has been working, both from the procurement side and through negotiations with our allies abroad, to reduce the balance-of-payments burden of our foreign aid and military programs. That is why we have had to pay close attention to the possible effects that monetary and credit policies may have on international movements of capital.

Taken together, domestic economic and balance-of-payments developments have posed a problem for monetary policy, but in my judgment that problem has not yet constituted as clear cut a dilemma as some observers suggest. While it has been necessary to formulate policy in the light both of the credit needs of the domestic economy and the potential effects on international capital movements, up to the present time it has not been a matter of choosing between domestic and international goals.

With the rare exception of an internal liquidity crisis, such as that experienced in the early 1930's, it is never helpful to sound recovery or economic expansion to flood credit markets with redundant funds. When resources are not fully employed, credit should be readily available to meet the legitimate needs of commerce, industry and agriculture—as it is now—but no constructive purpose is served by expanding the credit stream to the point where it overflows its banks. So far, we have been able to pursue policies which have not interfered with the ready availability of credit in the domestic markets at rates generally about even with those prevailing in early 1961, and in some critical areas substantially lower.

Fortunately, we have been free from inflation and the expectation of imminent inflation. This has made possible a more liberal policy with respect to reserve availability, a greater growth in bank credit, and less upward movement of interest rates than in any other recovery and expansion in recent history. In the last 12 months alone, we have added almost a billion dollars to bank reserves, bank credit has expanded by \$17 billion, and high-grade, long-term corporate bonds and State and municipal securities are about one-fourth of 1 percentage point below their year-ago levels.

At the same time, we have generally maintained short-term rate relationships with other major financial markets such as to avoid encouraging outflows of short-term funds. The fact that we have done and are continuing to do this, as we strive to improve our basic balance-of-payments situation, is bound to strengthen confidence in the dollar at home and abroad. In my judgment, this enhanced confidence is essential if we are to solve our balance-of-payments problem and promote domestic prosperity.

This leads me to the matter of deficit financing. It now seems most likely that we shall experience some deficit in our budget for fiscal 1963. That deficit would, of course, be increased if taxes are reduced during the current fiscal year.

I have stated quite explicitly my belief that such deficits as we may experience, whether they are due to a shortfall of receipts under the existing tax structure, an increase in expenditures, or a reduction in tax rates, should be met by borrowing from the real savings of businesses and individuals, not through the creation of money through the banking system.