

in the neighborhood of 1.2 to 1.3 million. Of course, a number of other influences such as the availability of intermediate credit lines and the availability of construction labor will have an effect upon the performance of the housing industry. Ultimately, however, any given level of residential construction can be achieved only if the funds are available to finance the homes, and my analysis suggests that the competition from the bond markets will limit the supply of funds available for mortgages.

I should conclude by pointing out that if my assumptions prove to be too optimistic, and I have intentionally made them as optimistic as I could, the outlook for the credit markets could be even more ominous than I have suggested. If economic growth should assume boom proportions, if the budget deficit should be as huge as some forecasts suggest, or if a sizable tax surcharge is not enacted, more serious problems could arise. The Federal Reserve System might find it necessary to move away from the easy policy I have assumed, and the result of additional credit demands in a setting of credit restraint could create almost intolerable pressures on the credit system.

Chairman PROXMIRE. Thank you very much, Mr. Gaines, for a lucid and very fine statement.

(The tables referred to by Mr. Gaines follow:)

TABLE 1.—Summary of financial flows

[Federal Reserve flow of funds data in billions of dollars]

	1961	1962	1963	1964	1965	1966	1st quarter 1967 season adjusted annual rate	Forecast, 1967
Funds raised by nonfinancial sectors, total.....	44.2	54.2	58.5	67.0	72.1	71.1	70.1	80.0
U.S. Government securities.....	7.7	7.9	5.0	7.1	3.5	6.7	10.6	12.0
Foreign loans and securities.....	2.6	2.1	3.3	4.4	2.6	1.4	-0.8	2.0
Consumer credit.....	1.7	5.5	7.3	8.0	9.4	6.9	4.8	6.5
Bank and other loans.....	3.7	7.8	8.2	10.7	18.3	17.7	14.4	15.0
Municipal securities.....	4.9	5.0	6.7	5.9	7.4	5.9	9.8	8.5
Corporate securities.....	7.1	5.1	3.6	5.4	5.4	11.4	14.5	16.0
Mortgages.....	16.6	20.9	24.4	25.6	25.5	21.0	16.9	20.0
Sources of credit, total.....	44.2	54.2	58.5	67.0	72.1	71.1	70.1	80.0
U.S. Government lending and change in cash balance.....	2.6	4.6	2.3	4.0	3.7	7.0	-1.5	6.0
Private insurance and pension reserves.....	8.6	9.0	10.1	11.1	11.6	12.8	12.8	14.0
Other.....	6.7	6.2	6.6	7.9	7.8	7.1	-1.8	5.0
Private domestic nonfinance sector.....	26.3	34.4	39.5	44.1	48.9	44.2	60.6	55.0
Demand deposits and currency.....	3.8	2.1	5.9	6.5	7.8	2.9	7.6	7.0
Time and savings.....	20.2	28.1	28.5	28.8	32.6	19.6	48.7	36.0
Commercial banks.....	9.0	15.0	13.4	13.0	19.5	12.3	32.4	20.0
Savings institutions.....	11.2	13.0	15.1	15.8	13.1	7.3	16.4	15.0
Private credit market instruments.....	4.1	2.5	2.3	7.8	6.1	13.3	17.0	7.0
Other.....	-1.8	1.7	2.8	1.0	2.4	8.4	-12.7	5.0