

have repaid in recent months because of the nice flow of funds they have had.

Representative CURTIS. Another problem is that if interest rates go up here that means increased costs of credit, and, of course, the same thing that is forcing up the interest rates will be forcing up the Consumer Price Index. Increases in prices, in turn, put our exports at a disadvantage and imports at an advantage. Then we lose our basic asset in the international balance; namely, our favorable balance of trade.

Would you comment on that picture? In other words, when you have to look at the whole fabric, I think you find we are running out of cloth. You pull it to cover one part of the table and you pull it off other parts of the table. I wonder if we are not reaching this point. Maybe one wouldn't call it a crisis. I do. I think it is a serious crisis. I don't know how we are going to pull this cloth any more. On taxes people say that if you raise them you have an impact on the economy, and I think our tax rates are still too high. Yet if you go to the other source and try to borrow more money you create additional problems there. I think we have a similar picture internationally.

Mr. GAINES. Yes, sir. Unquestionably rising prices domestically do have adverse effect on our exports. Also if some of the forecasts of a very rapid business expansion later this year and into 1968 should be true this would have an even more profound effect on our imports, having very harmful effects on the balance of payments.

I find something a little bit amusing. In recent years we have taken to lecturing the Western European countries to make more effective use of fiscal policy and not rely exclusively on monetary policy to deal with their domestic problems. I don't know that we are in a very pristine position currently to be giving lectures of this sort to our friends abroad.

Representative CURTIS. I thank you, sir. Finally, I just have some questions to inform myself.

I was rather startled in reading a statement in one of the bank reviews that a good bit of the financing in 1966 had occurred outside the financial institutions. I have forgotten the term used but I believe it was household financing, at least from the private individuals. I find that a lot of people who could borrow on their insurance policies for various reasons did so because they would get lower rates. The main thing is to develop institutional financing.

Could you give me some insight as to what the household financing was in 1966 in these terms? I guess it means banks, and savings and loans, but not pension plans, although it could. What is that picture? Can you help me a little?

Mr. GAINES. In my table 1, which is a summary of financial flows derived from the Federal Reserve flow of funds data, in the bottom two lines on sources of credit, private credit market instruments and other, the catchall, you will notice that in 1966 the total was some \$21.7 billion which compares with \$8½ billion the year before and similar amounts in prior years.

This reflects the shift that you refer to. The very simple explanation was that, as the banks for cooperatives, the Federal intermediate credit banks, the U.S. Treasury itself found themselves paying 6 percent, 6¼ percent for money, a growing number of smaller savers discovered that the 4 percent they were getting at their com-