

The budgetary consequences of these revised estimates of revenues and the expenditure contingencies outlined would imply a deficit of \$23.6 billion. In the event no tax increase was enacted, and in the absence of tight expenditure control, the deficit could rise to \$29 billion (including \$700 million for the higher interest cost on the public debt that such a deficit would involve).

On the other hand, with tight expenditure control and with the tax increase programs, the deficit can be kept within a range of \$14 to \$18 billion.

Chairman Ackley will develop in detail the broad economic consequences that are presented by a choice between these two alternative courses of action.

3. To avoid excessively high interest rates and tight money

We also need this tax increase to avoid excessively high interest rates and tight money.

I cannot stress too strongly my deep concern about the pressures that would be exerted on the money and credit markets by the borrowing requirements associated with a deficit in excess of a \$14- to \$18-billion range.

The credit markets can accommodate a Federal deficit of considerable size. But, given present private demands for credit, an outsized Federal deficit, such as would result without the proposed tax rise and expenditure restraints, cannot be accommodated without severe disruption to the credit markets, sending interest rates sky high and shutting off the flow of credit to sectors such as the home mortgage market and small business.

Some people may ask why we have to raise taxes and hold back spending. Why can't we borrow more? Isn't the U.S. Government's credit good? These questions come naturally because none of us likes to raise taxes or reduce or deny funds for many worthwhile programs. The fact is that we must choose among alternatives: one is to raise taxes and reduce expenditures to the maximum extent possible, and then borrow the rest; the other is to go much deeper into debt through very heavy borrowing.

It is my particular assignment today to explain why unlimited recourse to borrowing would be risky and unfortunate in the present financial situation.

Some may also ask: "What about World War II; wasn't there very heavy recourse to borrowing then?" The answer is that there was such recourse then, but it was undertaken only in conjunction with widespread direct controls (complete allocation of materials and facilities; price, wage, and salary controls; direct credit controls) that limited activities not directly related to the war effort.

Even with these measures there was a substantial inflationary cost. In the current situation we have avoided those rigid controls, and also avoided the milder controls of the Korean period. We propose in the present situation to follow general fiscal and monetary policies that continue to make it possible to avoid rigid direct controls.

Now let us consider our financial markets and the demands on those markets. To see how the pieces fit together, we need to look at the whole range of demand and supply factors.

Concentration on just one part of the whole picture will not do. This rundown, Mr. Chairman, may be a bit elementary and even