

Thus instead of exerting a net credit demand on the private sector, Federal credit market operations actually supplied over \$6 billion to the private credit markets through net repayment of debt. Even after making an adjustment for the \$5 billion decline in the Treasury's cash balance over the fiscal year, there was still a net repayment of credit from the Federal sector to the private sector.

The picture in this current fiscal year will be different. It will not be a question of net repayment of credit by the Federal Government to the private market, but of how large a net demand might be made on those markets.

Illustrative of the possible Federal credit demands, suppose that the administrative budget deficit in fiscal year 1968, with the proposed tax measures enacted, is \$14 billion.

Adding together the increases in Treasury debt, Federal agency debt, and participation certificates, there would be an increase in outstanding obligations of some \$20-\$21 billion. Making rough allowance for purchases by the Government investment accounts and Federal Reserve, the net demand on the private sector might be around \$10-\$12 billion. (This \$10-\$12 billion net demand for the full fiscal year should not be confused with the estimates recently reported for prospective Treasury borrowing in the July-December 1967 period; the latter estimates, which anticipated market borrowing of \$15 billion in Treasury issues and possibly \$2 billion in participation sales, included a seasonal component which would be reversed later in the fiscal year when a seasonal surplus of revenues over expenditures is anticipated.)

Without the proposed tax measures, the Federal sector's net demands on the private credit market in the fiscal year 1968 would be \$7.4 billion greater. Moreover, added financial requirements could raise, as they did in 1966, from further demands on Federal credit agencies, because of tightened credit conditions in the private sector.

The total of Federal credit demands on the private sector, without tax action, could thus reach \$20 billion, or exceed it if expenditures ran to the higher side of the range of contingencies now contemplated.

Moreover, the difference between net Federal credit demands on the private sector on the order of \$10-\$12 billion, or on the order of \$20 billion or somewhat more, depending mainly on the presence or absence of tax action, does not tell the full story.

For along with swollen Federal credit demands, the failure to hold down the budget deficit would create an inflationary environment in which private credit demand could soar, and in which it would be more difficult to continue an expansionary monetary policy, and that would cut down on total available supplies of credit.

Thus private credit demands, in the absence of a tax surcharge, would be hit in three ways—by the enlargement of Federal credit demands, by a swelling of the private demands themselves, and by the curtailment of total credit supplies.

The net result would be a vastly different set of credit market conditions, imposing a very substantially heavier net demand for funds that could not be met by institutional lenders, and that could be met only in part by the residual sector made up mainly of individuals.