

Secretary FOWLER. No, it is with the tax and the various elements of expenditure restraint that were identified by Mr. Schultze in his testimony at some length, I believe in a colloquy with Mr. Byrnes.

Mr. BATTIN. Mr. Schultze was saying—at least this morning—that every effort was going to be made by the administration to override the action the House took in the sale of participating certificates which would indicate your going to have to go back into the market at some time during this fiscal year to do some financing in order to take care of the deficit.

Secretary FOWLER. If we don't sell participation certificates we have to sell Treasury securities. It is the same magnitude whether you use the PC's or not.

Mr. BATTIN. There is a little difference in perhaps the saleability of interest paid. That is not the point. The point is that last year where you had to finance the 9.9 deficit in the 1968 fiscal year, you are going to have to plan to finance \$14 to \$18 billion. I think this would be really a far more difficult thing to do than was done last year and I don't see where you are going to be able to control the interest and the inflation and the tight money?

Secretary FOWLER. Let me say there is one major difference between the state of the market last year and this year which we are very anxious to preserve, Mr. Battin. It is very important to have it and that is a monetary policy of relative ease—the fact that bank credit is being expanded in substantial amounts and that the money supply is being increased at a substantial rate, around 6 to 7 percent compared to last year's rate of 1.9 percent. So, we would hope, while I think my statement does not put any optimistic gloss on the problem that confronts us, with the deficit at the range indicated, nonetheless we think it is a lot more tolerable and a lot more manageable at that level than would be the case if it were at the higher levels of \$28, \$29 billion.

Mr. BATTIN. Now, anticipating a \$14 billion deficit does that mean that sometime before the 1st of June 1968, we will have to raise the debt limit again?

Secretary FOWLER. Let me give you these elements. The debt limit that is applicable to the fiscal year 1968, as you recall, is \$358 billion.

We are of the clear opinion that a deficit of \$14 to \$18 billion, which is the range we are seeking here would fit under that limit because it was set high enough to cover some of the very contingencies that we have now under consideration, that have either come to pass or seem likely. A deficit of \$29 billion I do not believe could be accommodated under the debt limit. To the extent that a bigger deficit was due to a short fall in PC sales it would not use up the leeway under the limit because of the modification in the limit that is provided but I do not want to imply in anything that I say the debt limit is the reason we are here urging the tax action or expenditure control.

The present limit applicable to fiscal 1968 could accommodate deficits for that year which we believe are clearly excessive in the view of the financing burden on the market and the inflationary potential in the economy. As for the maximum deficit that would get us under that limit I think a precise figure would depend very much on timing patterns within the fiscal year, and how much of the "deficit" might be due to short falls in PC sales. I would hate to give you a hard estimate but I think any time the deficit got anywhere substantially above \$20