

Our view in this case has not been made.

Mr. ULLMAN. In view of the fact that interest rates now are pushing through the ceiling—they are about at the same level as they were last September when we were in a real financial crisis—and add to that the fact that you are starting with that level of interest rates, add to that the prospect of a \$29 billion deficit, what in the world do you think is going to happen to the money market if we allow the country to get into that kind of a deficit position?

Dr. MADDEN. This again is the question which I think this committee should probe with great care. It is a serious question and an important question, but it is not a question which is likely to be resolved exactly as it appears on the surface.

For one thing, the year 1968 in the credit markets is not likely to be similar to the year 1966. In 1966 there is no question about there being a near financial crisis because of the large demand for funds in all sectors of the market and for all maturities in the face of a highly restrictive Federal Reserve policy.

In August of 1966 there was a near financial crisis in New York money markets. However, since the fall of 1966, and more particularly in the spring of 1967, the Federal Reserve System has pursued an aggressively easy monetary policy just confirmed by a press report of the Federal Open Market Committee's meeting in May, in this morning's newspaper.

As a result of this aggressively easy monetary policy which has seen the money supply rise by an annual rate of 6 percent a year and bank credit by 11 percent a year, we now have corporations, banks, and other financial institutions rebuilding their liquidity and, as they rebuild their liquidity, short-term interest rates have fallen and only recently show any signs at all of rising again.

Now, the Treasury is facing \$15 billion worth of financing, or was facing at the beginning of this fiscal year \$15 billion worth of financing, in the last half of this calendar year, but comments from the bond markets suggest that because of the liquidity position of banks and corporations this \$15 billion financing is, in their terms, not awesome and, although it will certainly be larger than last year by 50 percent, in this particular period it is not outside the experience of the money market for this very half of the year we are now talking about.

Now, 40 percent of the large borrowings that have been made in the first half of this year by corporations, according to Securities and Exchange Commission data, have been made for the purpose of repaying bank loans.

Corporate treasurers having been stung by last year's financial near crisis are rebuilding their liquidity positions in order to avoid the kind of shock that they felt as a result of last year's experience, and so it is not clear that in 1968 we need to repeat the experience of 1966.

It is not even clear that in 1968 the demand for borrowings by corporations will necessarily be as strong as it is this year, because there is this indication that some of the borrowing, an important part of the borrowing by corporations this year has been anticipatory and has been for the purpose of repaying bank debt, rebuilding liquidity, and reducing to some degree the dependence of the corporations on the banking system.