

ing there is that last year these savings institutions tended to rebuild their liquidity. We are also assuming, let us say, that the Federal home loan banks, which are in much more liquid positions, will increase sharply their advances this year to the savings and loans, and that will give them additional money. The figure of \$13.5 billion on home mortgages also assumes a substantial volume of FNMA purchases. So, I do not think it is inconsistent, but it shows some important shifts in this market.

We think there can be that amount of home mortgage money made available.

Another very important figure is—under “Commercial banks,” we have reduced net available funds from commercial banks to \$30 billion. Now, here is where I think the rub may be in this situation. This may not be large enough to accommodate total uses. I suspect we are probably low in terms of our figure on U.S. Government up at the top. We have a \$14 billion figure. Other people who make these estimates indicate it may run as high as \$16 or \$17 billion. Where I think the rub is going to come from is in whether the Federal Reserve will permit the commercial banks to expand their loans and investments to the extent needed to accommodate the uses we foresee. There are some people who feel that, in order for this to balance out, the Fed will have to permit the banking system to expand their loans and investments somewhere in the order of \$37 billion or \$37.5 billion.

So Federal Reserve policy becomes a very important ingredient in this picture of whether these uses are to be accommodated.

Now, let me turn, then, to the problems underlying our forecast.

First, we are assuming that wage compensation will continue to increase at say 6 to 6½ percent, and that the consumer price index will continue to rise at something like a 4-percent annual rate, which is the current rate.

Now, if that is true, it touches off other problems. One of them is that foreigners are going to be looking at the United States in terms of an economy that is expanding strongly, at least over the next several months, with prices moving up and costs moving up rather sharply. And, it is the sort of thing, I think, that will lead to a decline in the confidence on the part of foreigners and foreign central banks in the ability of the United States to discipline itself. And, I think that this forecast that I have made of the economy here, involving some escalation in prices, probably, is not going to be healthy from the point of view of preserving our whole international monetary system, and it has implicit in it, in the next 4 or 5 months, some rather rough going for the U.S. dollar in terms of the possibility of gold outflows.

Then another aspect of this is that, assuming that prices are moving up, and assuming that there is a good deal of uncertainty abroad about the dollar, there is a danger that the Federal Reserve will be pushed, in my opinion, to go too far in terms of credit restraint.

If you look at what the Federal Reserve has been doing, one of the main impacts of its policies so far has been to slow down the flow of time deposits into the banks. There is a third table which I do not want to take the time to run through. But the rate of net increases in time deposits in the commercial banks, including CD's, and all the different