

tion, Federal grant programs have been increasingly focused on urban areas. In 1964, an estimated \$5.6 billion, or 55%, of total Federal grants to State and local governments went to metropolitan areas. The 1970 budget provides \$16.7 billion for aid to these areas, triple the amount in 1964, and representing about 67% of total Federal grants estimated for 1970.

Looking to the future, the President is recommending establishment of an Urban Development Bank to provide substantial amounts of long-term financing of public facilities in urban communities through the combined efforts of Federal, State, and local governments and private enterprise. This Bank would raise funds primarily by issuing federally guaranteed bonds to the public and, in addition to financial aid, would provide technical assistance to the Nation's urban areas.

In conclusion, I believe that the 1970 budget represents an appropriate response to the fiscal policy requirements for maintaining a healthy and vigorous economy and provides for continuing the progress we have made in meeting both the Nation's military needs and high priority domestic objectives.

Chairman PATMAN. Thank you very much, sir. Without objection, we will continue the traditional policy that this committee has had a long time of recognizing each member for 10 minutes to question our witnesses until each member present has had an opportunity to interrogate the witnesses.

Now, I will ask you gentlemen three questions here and I will ask you to answer them when you go over your transcript of the record of this proceeding. If that is satisfactory, we will save a little time that way.

We have very disturbing distortions in our economy. The excessive level of interest rates, the highest in our history, is threatening the housing industry and the small businessman. It is always the weakest who are hurt by tight money.

Do you not believe, as a responsible public official, that we have to do something about it and do it quickly?

(The following reply was submitted by the Council of Economic Advisers:)

COUNCIL OF ECONOMIC ADVISERS RESPONSE TO CHAIRMAN PATMAN

I would certainly agree that high interest rates and tight money create disturbing economic distortions. As you suggest, these bear down inequitably on particular groups in our economy such as homebuilders and home buyers. The only appropriate remedy and preventive strategy for countering these trends is greater reliance on fiscal policy for economic restraint. Relieving the pressure on financial markets was a key objective of the administration's tax proposals in 1967 and early 1968, and it is an important reason for extending the surcharge this year. If fiscal policy does not provide the needed restraint, tight money may become the only alternative to an inflationary boom which would be even more dangerous and more inequitable.

Under present circumstances, it would be unrealistic to expect a rapid reversal and decline of interest rates. It will take clear and distinct evidence of an economic slowdown to convince both borrowers and lenders that financial conditions will relax and to alter inflationary expectations which tend to raise interest rates. A bipartisan consensus in the Congress on supporting extension of the surcharge would have favorable effects on financial markets. With the stabilization program that we are proposing, the Federal Reserve should be able to reduce the restraint from monetary policy gradually within 1969.

(The following reply was submitted by the Treasury:)

TREASURY DEPARTMENT RESPONSE TO CHAIRMAN PATMAN

Interest rates are extremely high by historical standards. In key areas, they stand well above the peaks reached at the time of the "credit crunch" in 1966. However, while credit is expensive, it is much more generally available than during the 1966 period of stringency. It is hoped that a satisfactory degree of