

credit availability can be maintained and that there will be no repetition of the 1966 experience when home financing and construction, as well as other areas of the economy, experienced a heavy burden of adjustment.

The shift to fiscal restraint embodied in the Revenue and Expenditure Control Act of 1968 had as one of its important objectives the maintenance of adequate flows of credit and the avoidance of undue reliance upon monetary tightening. For the present, a degree of monetary and fiscal restraint is required in order to achieve a necessary moderation of inflationary pressure. But, the fiscal measures now in place should gradually ease the existing pressures on credit markets and allow monetary policy a needed degree of flexibility.

The improved Federal financial position resulting from the surcharge and expenditure control will be an important factor easing the strains on private credit markets. On the unified budget basis, there was a net Federal credit demand—borrowing from the public—of \$23.1 billion in fiscal year 1968. In fiscal 1969, there is to be a repayment of \$3.1 billion, and in fiscal 1970 a repayment of \$4.0 billion. The Federal Government has shifted from being a net demander of funds from private credit markets and has become a net supplier of funds. In terms of immediate pressures on the markets, it is particularly significant that between mid-March and June 30 of this year the total public debt will be reduced about \$8 billion. Since the trust funds will be acquiring some debt, the paydown to private markets during this period will exceed \$8 billion by a considerable margin.

In addition to its very important effect on the Federal finances, fiscal restraint is expected to exert a substantial impact on the economy in early 1969. A further moderate slowing in the overall pace of expansion should lead to some scaling down of private credit demands. This would further reduce the degree of pressure being placed on private credit markets.

(The following reply was submitted by the Bureau of the Budget:)

RESPONSE FROM BUDGET DIRECTOR ZWICK TO MR. PATMAN'S QUESTION CONCERNING
INTEREST RATES

During the period of debate about the income tax surcharge, the Administration repeatedly called attention to the unfair burdens which rising interest rates create for small businessmen, farmers, the housing industry, and State and local governments, which depend heavily on the money markets for financing. A major reason for requesting the surcharge was to reduce these burdens. And it is a major reason for proposing, in the 1970 budget, that fiscal restraint be continued through fiscal year 1970.

In the absence of a policy of fiscal restraint, monetary policy would have to carry an undue share of the load of restraining the economy. We learned well in 1966 the consequences of relying too heavily on monetary policy—exceedingly tight credit, soaring interest rates, and inequitable restrictions on those sectors of the economy noted above. With fiscal restraint continuing through fiscal year 1970, a less restrictive monetary policy than is now necessary should be possible, and the high interest rates we are now experiencing should recede as the supply of funds becomes more plentiful relative to the demand for them.

A year ago, the Federal Government was a heavy borrower in the money markets and, thereby, a direct contributor to the upward push on interest rates. This year, and in the year ahead, the Government will be essentially neutral, since outlays in both years will be financed entirely from current revenues.

I would like each of you to comment on that as suggested.

Now, the Urban Development Bank mentioned by the Director of the Budget, I think, is a very interesting proposal and I am very much impressed with it. That will give us an opportunity in considering that proposal to consider whether or not we should have tax-exempt bonds or whether or not the Federal Government should pay the portion that the local communities would benefit from by tax-exempt bonds and get rid of them so it will help our entire economy and raise the amount of taxes very much and help the cause of tax reduction—if it is handled just exactly right and it could result in a much lower scale, lower interest rates for housing loans.