

tribution can be provided in the form of debt service subsidies over the term of the loans and Federal assumptions of the unusual loan risks.

While a Federal backstop behind the Bank's obligations is an appropriate means of assuring the investor in these obligations against loss and thus minimizing the Bank's borrowing costs, the Federal guarantee should not be expected to be used, or looked upon as a means of providing further subsidy of protection to the local communities themselves. The defaults on State and local bonds over the past several decades have been virtually nonexistent, and I believe this record should be maintained. The Bank can serve as a useful channel for Federal interest and other subsidies for the benefit of local community projects; these subsidies should be in predetermined amounts sufficient to make the local projects economically viable. Any loan made by the Bank should have a reasonable assurance of repayment. The management and staffing of the Bank should be of the highest caliber. I think these principles are essential to the establishment of the Bank in the private market on a business-like and fully self-supporting basis.

The Bank should also not be viewed as a substitute for sources of credit already available in the private market. As the Vice President stated in his July 2 speech, the funds of the Bank would be available for programs which cannot be financed through other means.

There should be firm control by the Congress over any subsidies provided to local communities through the Bank. While it would be essential to the efficient marketing of the Bank's obligations to provide advance assurance that Federal interest subsidies will be forthcoming in a timely manner to meet the Bank's own debt service requirements, this can be done without any loss of Congressional control by requiring regular approval by the Congress of the dollar volume of new obligations issued by the Bank with a Federal commitment to pay part of the debt service.

Chairman PATMAN. In fact, it has many advantages, I think.

Mr. ZWICK. If I can just interrupt briefly, the bill we will submit for the Administration anticipates exactly that course.

Chairman PATMAN. I am pleased to hear that. You know, the commercial banks that manufacture their money under the Government's credit bought 94 percent of all tax-exempt bonds last year. And so if they were not using the Government's credit to buy tax-exempt bonds, we would have plenty of money for housing. So that is a fine giant step in the right direction.

I think it is an amazing record to change the budget situation from a big deficit to a surplus in 1 year. This is certainly good news. However, I think we all want to be sure that it is a realistic budget and that we will not find later on that it is too low, and I will ask you gentlemen to comment on that when you look over your transcript.

(The Council of Economic Advisers supplied the following:)

RESPONSE FROM COUNCIL OF ECONOMIC ADVISERS

The estimated increase in Federal revenues (excluding employment taxes) for the fiscal year 1970 is indeed a strikingly low figure. That rise of a little over \$7 billion seems small not only in relation to the huge increase of fiscal 1969 but also to the normal growth that might be expected. As the Treasury response points out in detail, there are two principal sets of factors that account for this result. First, the retroactive features of the surcharge and the acceleration of corporate tax payments produced a non-recurrent addition to the level of receipts in fiscal 1969. Although this does not lower the *level* of receipts in fiscal 1970, it does make the *increase* from fiscal 1969 to fiscal 1970 smaller than would otherwise be the case. Second, the prospective moderation in the advance of economic activity, and particularly the very modest further increase expected in corporate profits, holds down the estimated growth of revenues during fiscal 1970.