

and improvement of useful tabulations of capital items such as Special Analysis D in the budget document.

As to the question of financing the Vietnam war with debt rather than current revenues, I would like to note that in the fiscal year 1968 budget outlays for special Southeast Asia support were \$26.5 billion, or only slightly more than the budget deficit of \$25.2 billion. I believe it is now clear that such debt financing of the Vietnam war contributed greatly to the current inflation problem and that we must now make every effort to avoid budget deficits which would add further to this problem.

Your question on new financial techniques, such as interest subsidies on private borrowings, must be considered in the context of broader questions regarding the method of providing Federal credit assistance, the budgetary treatment of Federal credit programs, and the impact of these programs on money and credit markets and on the economy. These questions have been the subject of several private and public studies in recent years and were also studied by a special task force on Federal credit programs appointed by President-elect Nixon. In addition, the budgetary treatment of Federal credit programs was a very important part of the study by the President's Commission on Budget Concepts in 1967.

It is clear that maximum reliance must be placed on existing private financial institutions in meeting the credit needs of the economy. It is also clear that necessary Federal credit assistance to help meet these needs should be provided, where feasible, through existing institutions rather than through direct Federal loans. Such assistance can be provided through Federal loan guarantees and insurance as well as through interest and debt service subsidies on both guaranteed and nonguaranteed loans. These measures are feasible so long as private lenders are willing to participate in these programs on reasonable terms.

However, it should be emphasized that no matter what the financing techniques employed or budget accounting methods adopted, it is essential to provide for effective Executive and Congressional control over the volume of credit stimulated by Federal assistance programs. Also, in a full employment economy with excessive price increases, a Federal stimulus to high priority programs—for example in urban areas—should be offset by cutting back in areas of lower priority in order to avoid adding to inflationary pressures.

Thank you for your kind remarks regarding my testimony before the Joint Economic Committee. I assure you that we will be looking very carefully into the questions you raised and that we will be soon developing an overall approach to these problems based on our own careful review of them.

In keeping with your request, I am sending a copy of this letter to the Joint Economic Committee.

Sincerely yours,

DAVID M. KENNEDY.

Senator JAVITS. And I would like to yield to Senator Jordan.

Senator JORDAN. Mr. Chairman, I am quite willing that we return to the regular order and go to the other side.

Chairman PATMAN. Thank you, sir.

Mr. Reuss.

Representative REUSS. Thank you, Mr. Chairman.

And welcome, Mr. Secretary, and your associates.

I note, Mr. Secretary, your strong emphasis—and here I quote—“that the economy must be placed under firm fiscal and monetary restraint.” In the light of that, have you considered the effect of the 7-percent investment tax credit which in addition to costing the Treasury some \$3 billion a year in revenues, produces an inflationary overheating of the capital equipment market in an area where the economy is under the most pressure? In the light of that, are you prepared to recommend the immediate repeal of the 7-percent investment tax credit?

Secretary KENNEDY. I am not prepared to recommend immediate repeal, because we haven't looked into it carefully. Dr. Walker has been asked to take a look at all areas of taxation. That will be part of