

tion of the Government accounts, whether or not that is desirable, conceptually, we get away from the necessity of maintaining an overall balance in the economy in balancing national output with productive capacity.

Senator MILLER. Will you be good enough to furnish the committee—and I would ask the chairman to have this placed in the record at this point—with an analysis of the budget deficit, let's say, the operating budget deficit situation, \$6½ billion, and how the increase in the debt ceiling limitation that it would entail could be handled by some of these other mechanisms to which you referred to offset the inflationary impact that in itself might cause.

Mr. VOLCKER. We would be glad to do that.

Senator MILLER. Thank you.

Chairman PATMAN. Without objection, it will be so ordered.

(The subsequent submission in reference to the above follows:)

The budget for fiscal year 1970 estimates over-all surpluses in the unified budget of \$2.391 billion in fiscal year 1969 and of \$3.414 billion in fiscal year 1970. Special Analysis B indicates that these over-all surpluses reflect excesses of outlays of Federal funds over receipts of approximately \$6.962 billion in fiscal year 1969 and \$6.848 billion in fiscal year 1970. The trust funds in the same two fiscal years are estimated to have excesses of receipts over expenditures of \$9.353 and \$10.262 billion.

As a result of the over-all budget surpluses, earnings from seigniorage, and other adjustments in Federal accounts, \$3.091 billion of Federal debt held by the public at the end of fiscal year 1968 will be repaid in fiscal year 1969 and \$4.000 billion additionally will be repaid in fiscal year 1970, assuming unchanged cash balances.

Excesses of receipts over expenditures of trust funds are required by law to be invested promptly in Federal securities. Therefore, Government securities will be required to be issued to the trust funds in sufficient amounts to meet this legal requirement with respect to the trust fund surpluses projected in fiscal years 1969 and 1970. Thus, even with the reduction in debt held by the public, the estimated over-all increase in gross Federal debt (including special notes issued to the IMF) amounts to \$5.135 billion in 1969 and \$6.323 billion in 1970. After adjustments for changes in agency debt and in public debt not subject to the debt limit, the debt subject to the debt limit, according to the Budget, will increase by \$3.747 billion in fiscal 1969 and by an additional \$6.608 billion in fiscal 1970. The actual debt ceiling limitation will, in addition, also need to take account of the seasonal pattern in receipts and expenditures.

Senator Miller inquired about the inflationary effect of an increase in debt. At the present time, given an over-all surplus in the unified budget, there would normally be an equivalent—approximately equal—*reduction* in the debt held by the general public, which is defined to include the Federal Reserve System as well as private investors. This reduction in the publicly-held debt could be avoided by building up Treasury cash balances at commercial banks or Federal Reserve Banks. But any net deflationary effect of such a build-up in cash balances would need to be judged in the context of other monetary policy operations, which are the responsibility of the Federal Reserve System.

In general, while there are disagreements over the extent of the impact, a budgetary surplus is considered to have a deflationary impact on the economy by removing funds from the private spending stream. A reduction in privately-held Federal debt may release funds into the capital markets and thus facilitate borrowing by others. However, this influence may well be swamped by the general effects of monetary policy or other factors on conditions in the money and capital markets.

Chairman PATMAN. Senator Sparkman?

Senator SPARKMAN. Dr. Walker, I want to ask you about that investment credit that the Secretary had something to say about. As I understood him, he said that you were not ready to recommend yet that it be changed, or that it be repealed. Did I understand him correctly?