

last summer when the Treasury had to do a great deal of financing, despite the fact the surcharge had just been passed. The Federal Reserve was inhibited to a degree in maintaining its control of the money supply and bank credit during that period by the fact that the Treasury was in the market so frequently. I think, without probably any real intention on anyone's part, at least as I read the record from the outside at that point, you ended up at the end of the summer with a much larger expansion of credit and money than anyone had looked for. This has had continuing repercussions on the economy and on inflationary developments since that time.

Representative REUSS. I intend to ask the Fed when they are up here, "Look, gentlemen, why don't you just relax the next time the Treasury tries a borrowing or refund and see what happens. I say that, because, really, what you are asking us to do is to assuredly hurt housing and State and local government. To the extent that the Treasury comes in with large bond issues, it is bound to tighten credit and raise interest rates on the long end. And whenever we do that, we want to be sure that we have a real evil that we are trying to work against.

I welcome your answer, and it is a straightforward one, and that has got to be considered, but first I want to hear what the Fed has to say.

Mr. WALKER. I am not sure what you want the Fed to do.

Do you want them to tighten or ease during the Treasury financing?

Representative REUSS. I want them to do that which they would otherwise do. I do not know why, particularly—up to 15 years, in my case, of hearing the Fed's reasons for the glories of the 1951 accord—I do not see why the Fed has to pervert itself. Granted, they are last, but there are other last ones.

Mr. VOLCKER. I think we should hear from them.

Representative REUSS. Avoid catastrophe, yes; and create a lot of excess money which you are then going to have to stop in a couple of weeks or risk Senator Proxmire's ire.

Mr. VOLCKER. The basic dilemma that we are in—and you will be interested in getting this directly from them—the basic dilemma that I am sure they sometimes feel themselves in is that if we have a large failure of a very important Treasury financing, they may end up with credit market conditions that will require an even larger injection of money in the end, to restore a tone of stability and balance to the markets, than if they conducted their own operations in such a way as to not aggravate that risk of failure which always exists anyway. It is a difficult problem. I do not want to prejudge this. But we are certainly going to be prepared—not only in this connection but in terms of our ability upon occasion and in judicious amounts make use of an authority to issue longer term securities in a way that will contribute to the overall aims of economic policy—to avoid undue effect upon any particular sector. I think in moderate amounts appropriately arranged, this is entirely possible through advance refunding techniques as well as through straight cash offerings or normal refunding.

Representative REUSS. I have a request for some information, which I make now to the Treasury.

On the 7 percent credit, investment credit, would you get me a breakdown of the types of business that received this credit, with particular reference to the Small Business Administration categories?