

tive of yours. And so I address myself to the realm of powers which you do have, and which you have exercised, and this is in the realm of fiscal policy.

Senator PROXMIRE. Do you feel we should exert this influence?

Dr. WESTON. Let me take one point at a time. Let me clarify my basic position, which is that the kind of monetary policy that we have had has been relatively tight. When you refer to the circumstances of last year and say that very little of capital movement was due to differentials in interest rates, this would certainly be true for last year, because our short-term interest rates were relatively high.

Senator PROXMIRE. They are higher, now.

Dr. WESTON. All right. What I am saying is that given this external factor over which you have chosen up to this point not to exercise control, given relative monetary stringency, then in the area in which you have presumably the power and have historically acted in the area of fiscal policy, certainly you should act here.

Senator PROXMIRE. Let me say: Is it not true that historically, speaking now of the Government as an entity, the Government has acted consciously at least more with regard to monetary policy than fiscal policy? Fiscal policy is a relatively new tool of stability. For the last 40 years at least we have had a conscious attempt on the part of the Government to influence the economy through controlling the supply of money. But the fiscal policy, tax-cut notion is a very new notion, and from the Gallup poll and other indications the public does not accept at all that we should use fiscal policy.

This is a radical new idea, that you should deliberately create a deficit, and particularly in a time of relative prosperity—lower taxes and increase spending or maintain spending. That is something it seems to me that is quite radical; as compared with the far more conservative notion that when conditions do not look so good you ease up a little bit on credit.

And I am not asking for pegging bonds at par. I am simply asking for a little easier credit; not having just \$300 million worth of free bank reserves, but \$500 or \$600 million.

Why is this not a more traditional and a more conservative approach? And also from what you are saying—and tell me if this is not true—if we did not have this tight money policy, you would not need as big a tax cut? Is that not what you are telling me? That because we have a tight money policy, you are going to need a bigger tax cut than you would have to have without it?

Dr. WESTON. That is correct.

Senator PROXMIRE. Therefore a bigger deficit than you would have without it?

Dr. WESTON. I would disagree with the bigger deficit. I think it is questionable whether you would have a larger deficit if you had a tax cut.

Senator PROXMIRE. No, no. I am not talking about that. You indicated we have about a \$6 billion bigger deficit with a \$10 billion tax cut. But I am not talking about that.

Dr. WESTON. That was Professor Suits. I would feel that the dynamic consequences of a \$10 billion tax cut would substantially eliminate the deficit.