

is basic. But in your whole presentation of this deficit financing theory there is only one paragraph devoted to what I think is one of the great problems in deficit financing—debt management. I have asked other witnesses who have suggested this quickie tax cut to stimulate the economy—and I am using just the figure of \$5 billion for convenience—we could use 10—that you cut taxes by \$5 billion and thereby release that money to the private sector, but we have to sell \$5 billion worth of bonds to the private sector and thereby we withdraw \$5 billion from the private sector. Unless you want to use the banks of the Federal Reserve System to buy these bonds.

In your paper you say, and this is the only reference I found to debt management, that—

if budget deficits are incurred, the method of financing them must be carefully adapted to the prevailing economic circumstances. A careful balance must be struck between bank and nonbank financing, a balance which will not thwart or nullify the expansionary effect of budget measures in an economy with excessive unemployment and excess capacity, but will prudently shift Federal debts into nonbank hands as the economy comes close to or reaches full employment.

As one who sits on the Ways and Means Committee, that has to figure how we are going to market these bonds, all you are really saying is that we have a problem. I think any one who advocates deficit financing, particularly right now, should be ready to discuss the economic impact of having to market these bonds.

May I relate it to one thing before I turn it over.

In monetary policy we find that the discipline that has entered the picture is balance of payments. So we can't follow the monetary policy that otherwise we would. So I suggest with the Federal debt the size it is, and the problems that we already have in marketing that debt, I think just the rollover is around \$90 billion next year, what is the economic impact of superimposing another \$5 billion on top of this tremendous amount we have in debt management.

Dr. HELLER. I think you are putting your finger on a very important part of expansionary policy, and, indeed, on one of the key areas where monetary policy has to be coordinated with fiscal policy. Essentially, in response to the very type of concern and question that you have raised, what this paragraph says is that when the economy is in a slack condition, when there are underemployed resources and manpower, a budgetary deficit can lead to an expansion of employment, production, incomes, and profits, without an increase in prices, and can do so even if it is bank financed.

Representative CURTIS. That is the thesis.

Dr. HELLER. This has been shown to be the case in past recessions when we have had deficits that were financed in large part by selling Government securities at the short end of the spectrum which were in large part placed in by the banking system.

Representative CURTIS. That is the area for debate. I don't know that it has been shown. I am not willing to presume that is so. I want the debate to center around the question, Is the theory of deficit financing sound? Your presentation and the presentation of others who advanced this theory begs the question throughout that the economy will be stimulated. I think we need to examine into whether it will or not. I doubt if it has in the past. People point to the fact that in the thirties this theory didn't work out. That is countered