As a matter of fact people do not understand that a deficit indicates one of two things; either the economy is not operating up to full capacity or expenditures are wasteful and too high. We have had deficits during the past 5 years because we have not reached full employment.

Representative CURTIS. I want to get into another question, but first I want to lead into this. The thing I have not understood and I have asked all the witnesses before the Ways and Means Committee, and this committee, is this: How does this theory of a tax cut in a period of a deficit already relate to the economic problems it creates in the debt-management area?

As a member of the Ways and Means Committee I have always had to be concerned about how we market our bonds. If you take $5 billion, let us say, and give it or transfer it from the governmental sector to the private sector in the nature of a tax cut and then market $5 billion of bonds in the private sector, why do people suppose that stimulates the economy? Maybe there are some reasons. Occasionally I have gotten answers to the effect that the transfers involve different people. I say let us go into that. But we have not had very much discussion on that subject.

Dr. Heller yesterday had only one little paragraph on the problems of debt management in his prepared statement—simply to say they are great and very difficult, and we have to be very careful about whether we market the bonds to the consumer or whether we use the Federal Reserve System. I said if you are going to use the Federal Reserve System and simply create more money, in effect you are not talking so much of the tax cut effect as you are talking about the fact that inflationary forces of this nature would stimulate the economy. Would any of you care to comment on that?

Mr. ECKSTEIN. It is certainly an extremely difficult question on which economists have pondered and reach no definitive conclusions. There are some things you can say. First, if economic activity expands as a result of the tax cut, some normal increase in the money supply should go along with it.

Representative CURTIS. Let me stop you there, if I may, Doctor. You say, "If it does." To me that begs the question. What we are talking about—does it? Will it?

Mr. ECKSTEIN. Let us take that question first. I take that for granted. Would that tax cut be spent? That is the first question.

Representative CURTIS. That is correct, but nothing should be taken for granted.

Mr. ECKSTEIN. The evidence on that, and there is some disagreement among the experts, I would say it would be fair to summarize it this way. As far as consumers are concerned you would find—and there is an immense amount of statistical work done—people would say somewhere between 60 and 80 cents of every dollar would be spent within a year.

Representative CURTIS. We have never done this. This has always been theory, as I understand. There is no place we can look where we have cut taxes for the purpose of this kind of economic stimulation. I am just taking your aggregate. You take $5 billion here in tax cuts and then you take it back in bonds. Dealing in aggregates I do not see what you have done, unless there is something about the mix in here.