

hearings on debt limitation in the Ways and Means Committee, where we increased the amount of bonds that we could issue to a \$308 billion ceiling. This \$5 billion tax cut you propose would immediately mean that we would have to increase the amount of bonds that we could market to \$313 billion, but that is not the basic point.

The real point to consider is this: What is the economic impact of having to market \$5 billion worth of bonds on top of the amount that we already have to market in the private economy? If you are going to try to market the \$5 billion in E bonds, for example, you take away the very money, if you are successful in marketing them, that you have given to the consumer. Dealing in economic aggregates, why is there a stimulus from taking \$5 billion from the tax revenues and turning it over to the people or the private sector, and then withdrawing \$5 billion from the private sector in the bonds you sell them? Where is the economic stimulus in that kind of a process?

Mr. RUTTENBERG. You see, Congressman Curtis, I don't quite approach the problem of Treasury debt financing from the same point of view you do.

Representative CURTIS. I do it as a legislator who has to try to figure out how we are going to sell the bonds.

Mr. RUTTENBERG. Let us just look at the situation. It is true, as you point out, that if a \$5 billion deficit ensues, and this has to be financed by the issuance of Government bonds, if it is done: (1) by selling more E-bonds, this in effect takes up the tax cut and the people who had the tax cut, in a sense, may be the ones who buy the E-bonds. Therefore, I don't think E-bonds would be bought because it is my judgment that people who get this kind of tax cut in the low- and middle-income brackets, would spend the overwhelming proportions. The Treasury financing would fail. You would have to find another way. Let us assume they issue long-term bonds, and these long-term bonds are then bought by the banks. This, in a sense, then reduces the level of free reserves in the American economy, reduces the level of available funds for lending purposes, and in a sense, does the kind of thing on the tightening of money policy that I was criticizing at the end of my own statement.

Let us assume that they do do this, though, and that they do have to float the \$5 billion deficit in terms of long-term bonds, or even intermediary term bonds. I don't care. It has the purpose of going to the banking structure as against going to individuals in buying the bonds. If it goes to the banking structure and the free reserves are reduced by the selling of the new Treasury bonds, and if the economy needs to have a higher level of loanable funds in the banking system, then the thing to do is for the Open Market Committee of the Federal Reserve, at that point, to step in and see to it that the money supply of the country as reflected by the lendable funds, is at adequate levels. I am not saying we go back to the problem that preceded the accord of 1951.

I am not saying that the Federal Reserve should buy the Treasury bonds that are put on the market at the point and time they are put on the market. It is highly conceivable that the Treasury can float \$5 billion of bonds, and at that point in time and a future point when the Federal Reserve feels the level of money supply should be increased, should buy other bonds through the Open Market Committee.