We already have them in debt management. Why do people assume in this kind of thing that cutting taxes, if we are simply going to sell bonds and take it back from the private sector, would in any way stimulate an economy under any circumstances?

Mr. NIEHANS. The two things are interrelated in quite a few ways. It is true that if a budget deficit is financed by selling bonds this must have an effect upon the credit market. The effect would normally be that interest rates would have to be higher than they would otherwise have been.

This ties in with the suggestion I made in another spot that interest rates should be somewhat higher than they are today. The two approaches are tied in very nicely with each other.

Representative CURTIS. Raise interest rates, you say?

Mr. NIEHANS. That is right.

Representative CURTIS. That would tend not to stimulate the economy?

Mr. NIEHANS. That is right. My approach was: Concentrate the monetary means on the external front and the fiscal measures on the domestic situation.

The two things are interrelated because by taking fiscal measures on the domestic front you are getting some credit strength on the external front. I think it is not quite true that taking money away from people by taxes amounts to the same thing as taking money away by selling bonds.

These are different types of money. One type shows up in the balance sheet, the bond money, and the other does not. It cannot, therefore, be argued that financing a deficit out of bonds sales amounts to the same thing as financing expenditures out of taxes.

The greater part of the effect will still remain though the deficit may be financed by selling bonds.

Representative CURTIS. In other words, the distinction you are making is that a tax reduction would go to people, and they would have the cash and that is it. If we then took it back from them by selling them bonds, although they would have the security that takes the place of that it still would mean that money would not be spent for consumer goods.

The theory of deficit financing of those who advance it—I disagree with them—is that this would stimulate consumer spending. That is what I don't understand in this syllogism.

My time is up. We have a time schedule where we go back and forth.

Chairman PATMAN. We will get back to Mr. Curtis later.

Representative REUSS. I was fascinated, Dr. Niehans, by your account of the agreement made 3 weeks ago by the Federal Reserve Bank and the Swiss National Bank. I gather from what you say that the agreement between these two institutions specifies in effect an exchange guarantee so that if the United States, for example, should raise the price of gold, the Swiss National Bank would be entitled to a greater number of dollars.

Is that the nature of the agreement?

Mr. NIEHANS. Yes, in a way. Maybe it is better described in the following way: The Swiss National Bank placed at the disposal of the Federal Reserve Bank of New York 216 million Swiss francs. The