which means high interest rates.

Mr. Lolli. No.

Senator Proxmire. The U.S. danger is not inflation but deflation in spite of any contrary appearances. We don't have to fear inflation at the present time. I would agree with you we have little fear of any monetary inflation because we have an excess of capacity and an excess of labor seeking work.

Therefore, it seems to me we should use bank credit and we should take full advantage of any tax cut to expand our economy by stimulating it and keeping interest rates low.

Isn't it fair to say that a banker is in the same position as a farmer who likes high price supports in the way the banker likes high interest rates. You would expect bankers to testify in favor of policies which create situations in which his income is higher.

That is perfectly normal and natural.

Mr. Lolli. I am not testifying here as a banker.

Senator Proxmire. I know you are not.

Mr. Lolli. I am testifying what I feel in my conscience is in the interest of the United States.

Senator Proxmire. You and the other international financiers are surrounded by those whose economic well-being is served by following these policies.

Mr. Lolli. May I say about the budget deficit, though a smaller sum, we had an experience in Italy that a budget deficit doesn't bring any harm. In the United States I think in 1961, the budget deficit was about 2 percent of the gross national product.

You may be surprised to know that in Italy in the best years of development and expansion we had in 1957 a 7-percent deficit.

Senator Proxmire. This is in a budget comparable to ours, an administrative budget?

Mr. Lolli. Yes.

Senator Proxmire. Two percent would be equivalent to a $10 billion deficit here, a 7 percent would be equivalent to a $35 billion deficit?

Mr. Lolli. Yes; 8.5 percent in 1958; in 1959, 9 percent. How did we get along without troubles? Because this deficit was not financed by printing paper except for a small portion but just by long-term savings.

The Central Bank would issue 9-year bonds and would call in the banks and say: "Here, 50 billion lire are being issued. You must take them one way or the other." Savings were taking care mostly of the financing of the deficit of the budget.

Senator Proxmire. Certainly the conditions were starkly different than in this country.

Mr. Lolli. Absolutely.

Senator Proxmire. You have to worry about, as every European country does, inflation and too much money chasing too few goods because you have a shortage of labor and plant capacity. We don't have that at all.

Mr. Lolli. Exactly. I started at the beginning saying that it is impossible to compare the situation in the United States with the situation in most of the European countries. But some basic principles can be used. If you arrive at an important deficit in the budget I imagine that cannot be financed exclusively by bank credit.