That is not the current problem. We have a great deal of slack. Some addition to total spending is highly desirable if we are to get back closer to full employment levels. Consequently, I would hope that at least some provision would be made whether it is through the effect of a deficit or through providing funds to the private sector which would lead to some expansion in monetary growth.

Mr. RITTER. I don't think I could improve upon that.

Mr. CULBERTSON. I also should disagree violently with it. It would be a clear case of riding off in both directions.

Senator PROXMIRE. You would disagree with what Chairman Martin suggests?

Mr. CULBERTSON. Yes, and not with my colleagues. You are reducing taxes specifically because you want economic expansion. But to finance the deficit in the bond market would minimize the economic expansion you get. Indeed, if you finance the deficit entirely through bonds, which doubtless Chairman Martin would not really follow through on, I am not sure but that the whole package would have a depressive effect. You might be dumping a very large amount of Government bonds on the market, much more than it is accustomed to seeing.

Clearly, a policy of financing all Government deficits in the bond market does not make any sense as a part of a coordinated package of Government stabilization policies. You have a deficit often because you want economic expansion. Therefore, you finance the deficit in relatively short-term and liquid Government securities. Monetary policy I should regard as largely independent of the Government deficit. If the Government runs a $15 billion deficit, this does not mean that you ought to have a $15 billion increase in money supply. But you should have some increase in money supply, one that is judged appropriate to the circumstances.

Senator PROXMIRE. Then, if he sold bonds to the public to compensate for the increased deficit of $6 billion that might flow from a $10 billion tax cut, assuming that the multiplier might increase revenues, you say this might have a temporary negative effect overall.

The two policies together might have a minus effect rather than a plus. In any event, the plus effect would be greatly reduced; is that correct?

Mr. CULBERTSON. The psychological effects of such policy measures is a dimension that none of us knows much about. But opinions on the efficacy and perhaps the morality deficits are divided. Some people oppose them on ideological grounds, and their practical effectiveness may be much less than an analysis on economists' usual assumptions seems to indicate. If at the same time that you run a large deficit you float a very large volume of bonds and thoroughly shake up the bond market, this would further disturb some of the same people as well as directly having an adverse effect upon investment and upon prices of bonds and related investment units.

So, where you would come out with such a package I am not sure.

Senator PROXMIRE. I do not want to delay you gentlemen longer because a live quorum has apparently been called, but the effect of this action would presumably be designed by Chairman Martin to prevent inflation and a rise in the price level.