Do any of you gentlemen feel that, under present circumstances, if we should have a tax cut, if the situation is about the same in January or February or March of next year, if such a policy as Chairman Martin advocates of spring benefits, the public would be warranted to prevent inflation?

Mr. SPRINKEL. You mean have no monetary growth whatsoever?

Senator PROXMIRE. That is correct.

Mr. SPRINKEL. I would say such a policy would not be warranted. Inflation is currently not a problem. It may become a problem. The evidence is quite clear, if we look at the price indexes, they have been quite stable.

As the Stigler committee report indicated, there are good reasons for believing the indexes are probably biased upward by a modest amount. We have had little inflation, if any, in recent years.

With all of the slack in both labor and capital resources, at the moment, it is inconceivable to me that we are on the brink of another large inflation in the near term. If we were to suddenly expand the money supply very rapidly and have large deficits and maintain that posture over a period of a couple of years, conditions could change completely.

You asked as of the moment, and I would agree with you.

Mr. RITTER. Yes, we are talking about a deficit that is not an inflationary deficit. Inflation is not our problem today. If we had a very large deficit, we might have an inflation problem. But that is not what we are talking about.

Senator PROXMIRE. I want to interrupt to say that yesterday Mr. Lolli, who is the executive vice president of the biggest bank in Europe, testified that he favored this approach under some circumstances because he said Italy had enormous deficits equivalent to $40 or $50 billion dollars in this country without serious inflationary pressures.

They sold bonds to the public to compensate for the deficit. The result was that the inflationary bias of the deficit had been neutralized.

Mr. RITTER. I am not acquainted with economic conditions in Italy. That is what we ourselves tried to do in World War II. With the heavy deficits we ran then, we made tremendous attempts to sell bonds to the public. We tried to get the deficits financed out of savings. But World War II was a situation where this was a high-pressure economy with inflation threatening at every turn.

It was completely different from the situation today.

Mr. SPRINKEL. Even so not all of it was sold through savings. Much of it actually was financed through the banking system during this period.

Mr. CULBERTSON. On that point I think the suggested way of looking at it is fundamentally in error. We either have excessive demands or we don't. Our diagnosis is that we have deficient demands. That is why we have to reduce taxes.

It makes no sense to take action in another area that would tend to prevent this one from being effective. At some other time we may have excessive total demands, but we can't have both problems at the same time.

If we have inflationary problems within the next year or so, they will be of the cost-push kind rather than resulting from excessive