Representative WIDNALL. All of the members of the foreign panel were of the opinion that employment would be stimulated here by deficit spending. Do you care to make any comments on that as to whether deficit spending will stimulate the economy?

Mr. KLOPSTOCK. I would first like to say, on the question of Canada, that they had a substantial deficit in the balance of payments that they financed by capital imports. During 1961 these capital imports or capital investments in Canada began to diminish. In 1962 there was a withdrawal of foreign capital from Canada and the Bank of Canada began to lose very substantial amounts of foreign exchange reserves, which forced the Canadians to stabilize their exchange rate at a relatively low level.

Mr. HUMPHREY. Yes; I agree that a tax cut will stimulate the domestic economy. The evidence on consumer spending with relation to disposable income is pretty consistent for a long period of time; I think a tax cut is also favorable to business expansion.

Representative WIDNALL. The question goes further than just the tax cut. It is a question of whether deliberately incurring deficit spending at this time is going to be healthy for the economy when we already have a deficit.

Mr. HUMPHREY. I think a larger deficit at this time would be stimulating.

Mr. BELL. I would have to agree.

Representative WIDNALL. Mr. Klopstock?

Mr. KLOPSTOCK. Budget deficits tend to have a stimulative effect on the economy, that is true.

Representative WIDNALL. Would it have this in the long run or would it just be a shot in the arm?

Mr. KLOPSTOCK. I would say it depends on the circumstances.

Mr. BELL. May I comment on one thing that disturbs us at times in talking about a larger deficit? It is really the total of Government spending and the total of taxes taken away from people so that they cannot spend which are the significant items so far as the effect on the economy is concerned. You could have a deficit and a level of Government spending of $40 billion, and it will be less stimulating than if you have a balanced budget at $80 or $90 billion.

The reason is that you are taking tax money from people that they would have spent only nine-tenths of anyway, and you give it to the Government which automatically spends it. The difference between the $40 billion budget and $90 billion budget.

Representative WIDNALL. When you comment on that, do you take into consideration the potential debt of the Government in connection with all the guarantees we have out?

Mr. BELL. You mean to the rest of the world?

Representative WIDNALL. Guarantees that we as a government have made in a number of programs. They are not included as deficits or anything like that. But they are hanging over our head all the time and they are greater than the actual debt as a potential. Is that something that should be considered at the time we are talking about incurring more and more direct debt?

Mr. BELL. I am not sure. I wouldn't think it would have an effect on the efficacy of the fiscal policy on the economy. That is what we really are asking here. Anyway that is out of all of our provinces.