

Mr. BELL. I think we are very close together. I would try to hold them low and let them rise very gently. I think that flexibility in interest rates is good.

Senator PROXMIRE. Certainly, the lower you hold them, the lesser the tax cut required and the lesser the deficit required and the lesser the debt burden that you would require to get an equal amount of stimulation for the economy.

Mr. BELL. I would agree. I think different economists might feel differently. I agree definitely because I think the interest rate is of considerable significance in the level of investment undertaken. Others would say it is negligible.

Senator PROXMIRE. Before I move on to the other gentlemen, I want to say that Mr. Lolli, yesterday, who is a very experienced European banker and vice president of the biggest bank in Europe, pointed out in Italy they had enormous deficits, comparable to a \$40 or \$50 billion deficit to us, but didn't have the inflation that you might expect.

They did what we did in World War II. They sold their bonds to the public. They did it pretty much on a one-for-one basis. Of course, they have no excess labor to speak of as compared with us, and excess plant capacity.

Under these circumstances, do you think that the experience that Italy had would be useful for us?

Mr. BELL. And a number of European countries. If you are at or near full employment, it is certainly not the time to create full money. In that case, if they sold the bonds to individuals, they were not creating new money.

Senator PROXMIRE. If you sell all the bonds to the public then, this is something you can do if you want a very big national Federal effort, whether it is a war effort or a big rebuilding of the economy, a big Federal housing operation, something really enormous, then you can prevent inflation by selling the bonds to the public.

If the purpose is to stimulate the economy and keep it as free enterprise as possible, it would minimize the amount you would want to finance by sales to the public.

Mr. BELL. I would agree.

Mr. HUMPHREY. I feel Mr. Martin's statement, which is what you asked about, may have overstated his position somewhat there, perhaps intentionally. I think we do have to watch prices very carefully. As long as we can hold prices stable, particularly in the export sector, I would not be so apprehensive about using new money.

I think Senator Proxmire that, as you imply, we should adopt our policy to serve the objectives we want to attain. With substantial unemployment and excess plant capacity, a larger Government deficit need not involve the inflation of prices. Regulation of the money supply should be guided by the requirement for avoiding inflation, rather than by what is done about reducing taxes.

The double problem of domestic unemployment and a balance-of-payments deficit calls for some readjustment of our thinking. High interest rates and tight money usually go together when we want to restrict an excess of demand. But that is not our problem today. To the contrary, we need to expand. Thus, even if we should be forced, for balance-of-payments reasons, to keep short-term interest rates higher than we would like, this should still be associated so far