

Then certainly it would be no time for tax cuts of either corporations or individuals.

Representative CURTIS. I happen to think it would be if it is real reform. In other words, if the error lies in the fact that our taxes are impeding economic growth, and I certainly think I can point to many areas where it is.

I want to get back to the thesis with which I am in disagreement, to try to develop your reasoning. You point out that you would have this tax cut even though we didn't cut expenditures and state this would recognize that we would have a larger deficit.

But then you state that this deficit would be financed, as far as possible, outside the commercial banking system.

The first point is that I think those who advocate this—and I must apply this to your paper, too—beg the question. The thing we are trying to find out is, would a tax cut stimulate the economy? That is the issue. Most people who have argued for it just presume that it would.

When you say that you would finance this additional debt outside the commercial banking system, let me say this: Why do you figure that cutting \$5 billion out of the tax revenues and turning it over to the private sector and then coming to the private sector and taking back \$5 billion in bonds would be a stimulus?

Mr. ECCLES. The stimulus would be largely in the payroll tax cut. I mean the tax reduction would increase the payroll immediately.

Representative CURTIS. Who will buy these bonds?

Mr. ECCLES. There is a great difference between the financial status of the people in the American economy. There is a large amount in various types of savings funds today. You also have a large number of your lower income groups heavily in debt. I believe the tax saving would be spent either directly or indirectly.

Representative CURTIS. This is not the lowest income group we are talking about. We are talking about Federal taxpayers. That is not the lowest income group.

Mr. ECCLES. If you cut taxes of persons in a high income bracket, they may not spend that money. They may invest it. But it would go back somewhere into the spending stream. In any case that is a small part of the tax savings.

The large amount of funds would come in the first bracket from 20 to 15 percent. That is where the great bulk is.

Representative CURTIS. Let me suppose this, now.

The Ways and Means Committee, on which I serve, has the problem of how to market the debt. Suppose we decide to do it in E-bonds and sell E-bonds through payroll deduction, and suppose that is where you were marketing. Where is your economic income?

Then you get back to the aggregates. You take out \$5 billion in tax cut and you turn it over to the private sector and then you withdraw \$5 billion. As I understand your suggestion, because of the mix, it would be a different group.

Mr. ECCLES. Your long-term investment bonds, if they were at a higher rate, would be competing in the market for the investment funds of institutions. There is a huge amount of funds in the insurance companies and savings banks and various trust funds that may not be used to the extent they should.