

should the size be? What should it be related to? Gross national product is obviously one thing that is meaningful. Then the absolute size of the debt from the standpoint of just financing it becomes a difficult problem.

I simply want to leave the record open on that for any comments you may want to supply for the record on debt management, with a request, Mr. Chairman, that we think possibly of sometimes maybe holding some hearings on the subject of the problems involved in debt management.

Mr. ECCLES. After the war, I was one of the strongest advocates of keeping war taxes on and keeping price control and rationing for a longer period. We should have paid off much more of the debt than was paid during the period of the forties, and we would have had much less inflation.

We should have also been free—the Federal Reserve should have been free—to carry out a restrictive monetary policy to stop growth in the supply of money when it was already excessive. There was a case of bad management by the Treasury. I am as strongly in favor of balanced budgets as anyone else, and budgetary surpluses. But I think you must first have a balanced economy. The important thing is to utilize your manpower and productive facilities.

If you can manage it in that manner, through use strictly of the private sector of the economy and the private debt system, I am 100 percent for it. We have never quite succeeded in doing it. I think we might do a better job than we are doing.

I don't want anybody to get the idea that I advocate per se budgetary deficits. I don't. There may be ways of avoiding them. I don't think that we have always done the best that we could do. I realize in a democracy such as we have, there are lots of compromises. It is a pretty difficult job not to avoid the excesses that we have. I think we are always going to have what we call booms and recessions. But when we see them coming on the boom side, we should adopt a restrictive monetary policy and, if need be, supplement that with a balanced budget or budgetary surplus. Then, on the other side, I think we should reverse our policy. We should have an easy money policy and a budgetary deficit.

I would like to get free of the international situation that we are locked into. Maybe we should use other means than monetary policy to deal with it. Until we do use some other means, we simply can't discard monetary policy without danger.

Representative CURTIS. Thank you.

Senator PROXMIRE. Let me ask a few questions along this very line, because I think we are really beginning to hit pay dirt.

You say in periods of slack in the economy that we should have monetary ease from a domestic standpoint, and this is beneficial to the economy, and that we should certainly not have monetary restraint under those circumstances?

Mr. ECCLES. That is right.

Senator PROXMIRE. Before I go into that, I want to clear up one point. You indicated that you were not only concerned with our outflow, but also with the inflow of funds in response to interest rates. I call your attention to the fact that short-term claims on foreigners, representing foreign capital coming into this country, from the begin-