

distinguished Senator from New York, certainly one of the ablest Members of the Senate, included that in his own tax package—the billion and a half tax cut, which you were the leader in providing, plus the investment credit which he approves and which you also champion, so that certainly this year we already have a billion and a half depreciation tax cut.

We also have a billion-plus investment tax cut as it comes out of the Finance Committee, so that we cannot say that to date there has been no tax cut. It seems there has been.

Is that right?

Secretary DILLON. I think there has been action in the field of incentives to invest.

Senator PROXMIRE. I mean incentive tax cut.

Secretary DILLON. Yes. That is right.

Senator PROXMIRE. I would like to ask you, Mr. Secretary: I think that you state your case very well when you say that you have been cooperative with the Fed. Frankly, I am not so happy about that cooperation.

But I notice that under your administration, in the brief period since the futile trial of Operation Nudge in early 1961, the Kennedy administration has refunded to the extent of \$71½ billion in long-term obligations, and this compares with \$20 billion of long-term refunding since the end of the war. So more than a third of all long-term refunding in the past 17 years has been during this administration, in only 19 months. While this is an accomplishment in terms of lengthening the debt, in my judgment it is a very definite contribution to high long-term interest rates and a very definite contribution to limiting economic expansion.

And this is one of the reasons why some of the economists who have come before us have been very deeply concerned by monetary contraction and about this adverse effect as one of the things that did slow down the economy in the past few months.

Secretary DILLON. Well, I have to respectfully differ. I do not think that the fact of issuing 3½ percent bonds of 1990 or 1998 in exchange to holders who had 2½ percent bonds of 1972, has had any effect whatsoever on long-term interest rates. And long-term interest rates actually declined during the time we were doing this, so it certainly cannot be said to increase it.

All one can say, if one wants—and that is a hypothetical argument that nobody can answer—is that long-term interest rates would have declined even more if this had not been done.

Senator PROXMIRE. There is just no question that when you sell another \$7½ billion worth of long-terms, the effect is to drive down the price of long-terms, and push up interest rates.

Secretary DILLON. I do not agree. Where I do not agree is the word “sell.” I think if you sold, offered for sale, at current market, \$7½ billion, or any billions of dollars, of long-term Governments, you would have an effect on the long-term interest rate, but that is not what we did.

We offered an exchange of long-term bonds, 30-year bonds, for 10-year bonds, or 9-year bonds. And all that happened was that the individual who had the 9-year bond now has the 30-year bond.