

Chairman PATMAN. Well, if they want to, they buy them; they have been buying tax-exempt bonds lately.

Senator BUSH. No; they buy shorts. You do not advocate buying long-term bonds with short-term deposits, do you?

Chairman PATMAN. No; I do not. I do not think the banks belong in the long-term Government bond market, and certainly not in the tax-exempt market. But, the Fed can always carry them. All they have to do is create more money. They could buy up the entire national debt, if they wanted to. There is no restriction on it.

That is correct, is it not?

Dr. NOURSE. That is a rather dangerous power.

Chairman PATMAN. I am not advocating it, and no one else is advocating it. But it could be done?

Dr. NOURSE. Yes. That is why discretion is so important.

Chairman PATMAN. The fact of the matter is that I have been keeping up with the payments of the Federal Reserve into the Treasury. Every month they are paying in about \$68 to \$70 million into the Treasury. That money, of course, is there because they bought Government bonds without paying anything for the bonds, on the Government's credit, and they collect the interest from the taxpayers through the Treasury, and then the surplus goes back into the Treasury. That is part of the surplus every month, \$70 million, approximately \$840 million a year.

Now, it is my contention that when the bond sales and the price of the bonds justify it, the Federal Reserve should be allowed the privilege, and encouraged through the open market operations, to buy bonds, so long as it does not upset the market, and accumulate them; in that way the Government would save the interest expense on them.

I would not do it to the extent of causing inflation or destroying our monetary system. Certainly not. But it is possible for the Federal Reserve to acquire a portion of the national debt that way. Not quickly, not suddenly, but over a period of years, when the climate is right, to acquire those bonds and let the interest flow back into the Treasury—reduce the interest burden on the budget.

Now, of course, some people will throw up their hands and say, "That would cause inflation." But there are ways to put the brakes on inflation.

Take the reserve requirements of banks, for instance. You could change them, if you wanted to. There is nothing sacred about them. I know one time when they were doubled, to keep people from getting adequate purchasing power. So certainly they could increase the reserve requirements of banks and prevent any type of inflation.

So do you not think it would be in the public interest if we had a policy like that, where the Fed could more and more accumulate Government obligations, when it would not upset the economy, and it would not be inflationary?

Dr. NOURSE. Mr. Chairman, if I may make a respectful comment, I would say that the intricacies of this matter are almost endless, and unfortunately it seems to me that we have lapsed back into a discussion of fiscal policy, here, whereas I thought the purpose of this hearing and the testimony to be given by the members of the panel is to explore forces of the private market.