A large part of the $3 million or so that would be brought into the Treasury, had it remained in the taxpayer's pockets, would not have been spent on either consumption or production, but building up the assets, assets in Wall Street, commodities, or would have gone into foreign investment. Therefore, my thesis is that it makes good sense to take some of the heat off monetary policy by plugging that kind of a loophole, and it would have a minimal demand chilling effect, which in the present conjuncture we are not sure we want to chill.

Mr. SAMUELSON. Each of us has his *Carthago delenda est;* and I might say I am on record as favoring plugging up that loophole, so that this or any year is the time to do it, but I would consider it to be a side issue when it comes to stabilization, and I wouldn't primarily recommend it on that account.

Representative REUSS. Why isn't this a better than ordinary year to do it, because this is the year when the avoidance of a greater deficit than is really necessary makes a lot of economic sense?

Mr. SAMUELSON. Well, there are a couple of answers to that, although I put them forward diffidently. For one thing, this would mean that some other year—a surplus year—is going to be worse than a normal year for doing it, even though I shall still want it done.

But actually, since closing this loophole has no effect, as you point out so cogently, upon the balance of current saving and investment, and supply and demand, it has no effect upon that part of the deficit which does worry me.

The Federal Reserve can provide the same money that could be provided in this way with the same lack of risk, in my judgment. But I would like to hasten on to the other part.

Representative REUSS. Don't hasten, because this point does bother me and it turns up in your paper where you say, and I am quoting, We should raise taxes primarily if we wish to hold down private spending on consumer and producer goods. * * * The Federal Reserve can easily permit the financing of even a large deficit at interest rates lower than the market now fears, if the economy is not overexuberant in the next year."

Now, it seems to me that if you can save $3 billion worth of Treasury borrowing by recouping the revenues by plugging the loopholes we are talking about, you thereby ease the burden on the money supply by that amount and you achieve lower interest rates, particularly at the long-term run, than would otherwise be the case.

Mr. SAMUELSON. I don't think so, and let me explain why I think not. Let's suppose that all of these people who have obligations, which under new law would be tax liabilities, actually held greenbacks, and we collected $3 billion of greenbacks from them because of this new provision. That would certainly make it unnecessary for the Federal Reserve to create $3 billion worth of greenbacks; but, since I don't consider these to be a heavy cost of creating new money when the Federal Reserve *ought* to be creating new money, I don't consider there to be any considerable saving to the economy from what you have described—except that fundamental reason which is in favor of closing the loophole; namely, if you believe, as a matter of equity and as a matter of proper taxation of true income, that this loophole should be plugged. But that is argument for its own sake.

Representative REUSS. But it also has the advantage of saving the taxpayers from here on out the interest charges on that unnecessary