

short end and therefore makes for a more viable Government bond dealer market and reduces the risks of being a Government bond dealer, and hence presumably makes the long-term markets operate more effectively.

Again this could be analyzed at length as to whether, when you consider second and third order effects, whether it does really produce this or not.

The second point I wanted to make is that these are not compartments. They are not sealed off, the short and the long end. In increasing the supply of funds, given the very strong demand for liquidity in the long end of the market on the part of corporations and a lack of desire to borrow at short term, in order to bring down long-term rates, would require a large infusion of the total money supply on the part of the Fed. This could potentially represent some problems in excess liquidity in the system when you wanted to put the brakes on in a period when demand was exuberant.

So there would be some costs to the attempt to bring down the long-term rates at this point in time. This is not a free good. I think this has to be recognized.

Representative REUSS. Professor Samuelson, would you like to comment?

Mr. SAMUELSON. I criticized the Fed prior to 1950 for its "bills only" doctrine. I applauded its 1960-61 recantation of that. I recommended Project Nudge or Twist in the 1960's. But when we look at what was done in the 1960's quantitatively, not a great deal was done—particularly since we had a very resourceful Under Secretary of the Treasury who popped long-term bonds into the market every time there was an opportunity, so that he was undoing the Operation Twist as fast as anybody was twisting. However, constructively, the Federal Reserve has been buying in the long market in recent weeks. I think it should continue to do so in this period of hesitation and doubt. It should be encouraged by Congress in this since it is inside the Government, but not dependent on the Government. And I would call your attention to Mr. Gaines' testimony before you yesterday, a banker from the First National Bank of Chicago, who said that it would be more effective if they did it steadily and let the market know that they were going to do this for a period of time.

Having said that, I should add that the present Under Secretary of the Treasury who is inside Government and not the creature of Congress, should not be encouraged and given good marks for lengthening the debt at every possible opportunity.

That has been an aberration of Chancellors of the Exchequer for a century. They consider themselves as doing a good job whenever they lengthen debt maturity; but that is not a good way for us now. We should not use any lull for the purpose of lengthening the debt.

It should be said that there is evidence that it is not easy to do much twisting and that it will take a large amount of buying at the long end and selling at the short end to create much of an effect. Moreover, the time may be very soon here when our concern will be whether the short rate is going to stay as short as it now is.

I may say that I don't agree that at the moment there are international repercussions from it. Because of the slowdown in Europe we are more free from that constraint than we can hope to be in the longer run. The current excess of long yields over short, is likely, I am afraid,