Mr. ULLMAN. I would hope you would use the trust accounts and that the Fed would expand its holding to the maximum extent possible.

Secretary FOWLER. There are very definite limitations on the extent to which you can use the trust accounts. That depends upon the inflow of cash to those trust accounts and that is something over which we have no control.

Mr. ULLMAN. I would hope you would use them to the maximum extent possible.

Secretary FOWLER. We always have used them to the maximum extent. We have to invest that cash as it comes in interest-bearing securities. There is no limitation there. Whatever comes in we will invest.

Mr. ULLMAN. I would hope that through whatever influence you have on the Fed, you would continue to encourage the policy of increasing the Fed's holdings of Government securities. They should also use whatever devices they have in the discount window with the banks to keep credit growth from becoming inflationary.

It is my judgment that these things can be done, but the interest rate situation is of such a serious nature that it is something that is going to require a great deal of attention by a lot of people to keep from developing into a future money pattern.

Secretary FOWLER. I think when Chairman Martin is before you, you will have, of course, a full opportunity to go over this with him, but just let me say I don't think there is any magic in how we can handle this problem of high interest rates without this tax bill.

There is no magician afoot that can do it without the risks that have been pointed out if we have the kind of expanding economy with all these pressures that are on it in the period ahead.

Mr. ULLMAN. Thank you very much. Mr. Curtis.

Mr. CURTIS. Thank you, Mr. Secretary, I can understand what I regard as some confusion on the part of my colleagues who have been interrogating you regarding the theory that an increase in tax rates will bring in more revenue, when in 1964 we proceeded on a different economic theory; namely, that lower rates would increase revenue.

I think it becomes important to review what was the real economic theory followed in the tax cut of 1964. It was not the theory of new economics, which called for continuing increases in Federal expenditures of about $5 billion a year (which was occurring) on the theory that aggregate demand had to be increased.

We followed the converse theory—that a cut in tax rates would increase the tax base, that is, economic activity, and that simultaneous expenditure restraint would prevent inflation or high interest rates. The figures are there for anyone to look at. The 1964 expenditure level was $97.8 billion.

In 1965 it was $96.5 billion. Actually, we cut a little in Federal spending.

Now, strangely enough, this point has been overlooked. But it bears directly on whether increasing tax rates, which I think are too high right now, will actually increase revenues, cut back on the base, namely, economic activity, so that revenues will be reduced.

I appreciate very much Mr. Ackley's analysis of the economic situation because that is our attempt to measure the tax base. Just as I argued in 1964 that we had to hold Federal expenditures, so I argue