phasize the importance of a high level of savings and productive investment in the economy.

D. DEBT MANAGEMENT

One of the most important but least debated economic issues is the impact of debt management on monetary policy. Although the Treasury-Federal Reserve Accord of 1951 was designed to free monetary policy from the iron grip of debt management, the flexibility of open market operations is still impaired to some extent by Treasury debt financing. If monetary policy is to serve its purposes effectively, considerably more understanding is needed of the relationship that exists between the operations of the Federal Reserve and the debt financing of the Treasury. We have consistently advocated that the Joint Economic Committee study this issue as a part of its continuing interest in the tools of monetary policy.

Recent developments point up our concern. Since mid-1965 changes in the composition of the debt have tended to be stimulative because newly issued debt has been relatively short term. The legal interest rate limit on long-term Government bonds is no longer competitive, forcing the Government to borrow in the form of "near money" securities with short or intermediate maturities.

The legal interest ceiling has also affected the term structure of interest rates. Yields on Treasury bills and intermediate-term securities have risen abnormally relative to yields on long-term Government bonds.

We believe that the administration must recommend immediate lifting of the 4¼-percent ceiling on Government bonds. Removal of the ceiling would facilitate noninflationary, long-term Government financing and at lower interest costs than are now possible through financing at shorter term.

Chairman Proxmire. Thank you very much, Mr. Secretary.

You say you are not here to get merit badges or a good conduct medal. I am going to give you one whether you like it or not. I agree with you wholeheartedly on not increasing taxes last year. As you say, there were certain restraints and fiscal actions taken, including some increases in revenue. If I got up on the floor of the Senate once I must have gotten up 10 times to praise the President in his position in not yielding to the pressures of many people and for not asking for a tax increase.

I think that was good sensible economic policy and I still think it was. However, at the same time I think it makes sense to press for a reduction in spending even beyond what the President had recommended.

I just want to make one other commendation before I get into questions. I think that you have done an excellent job in working to try and improve the international liquidity position. This is very complicated, but enormously important for world trade. You have worked very hard and ably to keep international interest rates reasonably down so we don't have pressure from that source to add to our stringency here at home, and you deserve a great deal of credit.

This is complicated. It takes subtlety, diplomacy, exercise of wisdom, and you have exercised all of those virtues.

As far as your statement of March 23, however, I am glad you read that other paragraph and frankly, I can't see that it adds anything. There is no question in my mind, Mr. Secretary, that there is uncertainly involved in Vietnam. There is no question that it is hard to estimate whether you were going to have a $10 or $11 or $12 or $9 billion war over there. But you had a $20 billion war. That kind of mistake has not been explained by you or anyone else in the administration.

I don't want to spend much time on this, and I am sure you don't either. I would like to emphasize that what we needed was a cor-