

This can become a problem for those who have gone farthest in that direction.

Senator MILLER. I recently did a little research and I found that over the last 7 years, 1961 through 1967, we had a very dramatic increase in our gross national product; as I recall, in the neighborhood of \$250 billion. But then I found that during the same period of time, we had an even more dramatic increase in total debt, Federal, State, local, and private, amounting to around \$500 billion. When one realizes that much of that debt would be reflected in turn in purchases going into the GNP increase, assuming the general accuracy of my figures there, Professor, would that not indicate to you that GNP, without taking into account the debt increase, is a rather soft basis for reaching economic conclusions?

Mr. WALLICH. I think, Senator, there is a longrun relationship of debt to GNP that is a little below 2 to 1. Since 1929, that relationship has been going, I think, at an average ratio of 1.85 of debt to GNP. But it is certainly clear that debt can become burdensome for particular people and sectors and most particularly, there is a danger that debt can be financed badly. If debt is too heavily financed by the banking system, then too much money is created. Excess money causes inflation. And if we allow increases in debt to be excessively financed by the banking system, and excessive means that more is created than the amount of money that ought to be created annually, then we have nothing to expect but inflation.

Senator MILLER. My time is up. I would like to go into that with you in a little more detail. But I would just like to footnote this last question.

Do you think that ratio of 1.85 of debt to 1 of increased GNP is a healthy ratio? Why should it not be 1 to 1, or even less than 1 to 1?

Mr. WALLICH. Well, it depends on the amount of investment that the economy needs. After all, for everybody who goes into debt, there is somebody else who wants to save money. Now, savings need to be invested; otherwise, money is withdrawn from the income stream and jobs are lost. Therefore, every time somebody saves a dollar, somebody else, or maybe himself, needs to invest a dollar. I would not want to discourage borrowing in the face of a high rate of saving. Our problem, I think, is to prevent excesses to make sure that particular sectors, particular firms, households, do not go beyond their debt capacity.

Senator MILLER. Thank you very much.

Chairman PROXMIRE. Mrs. Griffiths?

Representative GRIFFITHS. Thank you, Mr. Chairman.

May I ask you, each or any of you. Do you really think this country can survive full employment merely with the use of monetary and fiscal policy? Survive?

Mr. MODIGLIANI. What do you mean by survive?

Representative GRIFFITHS. Well, we would not have to take some sort of drastic action in some other area, with full employment, just by the use of fiscal—

Mr. WALLICH. The answer surely is "No," Mrs. Griffiths.

Representative GRIFFITHS. I agree.

Mr. WALLICH. One policy instrument among two, driving toward full employment and the other seeking to achieve all our other objectives—it depends, of course, on what we mean by full employment.