In other words, what I am getting at is this: As I understand it, with the addition of $10 billion to the national debt, and the financing necessary, there is a foundation laid for the Federal Reserve Board to increase the money supply, not just by $10 billion but by upwards of $20 or $30 billion, and that this is done or can be done through the open market policies of the Board, what is known as monetization of the national debt.

Mr. MITCHELL. Yes.

Senator MILLER. I would like to have you give us a picture of how that works.

Mr. MITCHELL. Well, when the Treasury sells $10 billion worth of debt, it sells it to the banking system, not to us.

Senator MILLER. OK.

Mr. MITCHELL. But if in our open market operations we buy say $10 billion from the banking system, that is something else again.

Senator MILLER. Yes.

Mr. MITCHELL. They now have a reserve base on which their average expansion is 10 times.

Senator MILLER. All right.

So that if you indeed wanted to expand the money supply——

Mr. MITCHELL. This is the way you do it.

Senator MILLER. Then you would purchase the $10 billion?

Mr. MITCHELL. That is right.

Senator MILLER. From the banks?

Mr. MITCHELL. That is right.

Senator MILLER. And that would increase their lending capabilities?

Mr. MITCHELL. Roughly 10——

Senator MILLER. For $100 billion?

Mr. MITCHELL. Yes.

Senator MILLER. Of addition to the money supply; is that not so?

Mr. MITCHELL. Money supply and time deposits. You would have to specify whether you are talking about M–1 or M–2, but I would say over time, given a little time, you would have expanded bank lending capacity by something like 10 times, yes.

Senator MILLER. Yes. Well then, this would appear to be a very vital consideration in whether or not there is an excessive increase in the money supply.

Mr. MITCHELL. Certainly.

Senator MILLER. I have heard criticism of the Federal Reserve Board for being responsible for the inflation, as a result of the excessive expansion of the money supply through this technique. What does the Federal Reserve Board have to say about that, in defense of that?

Mr. MITCHELL. Yes. The technique, like the surgeon's knife, you know, depends upon how it is used, for good or for bad, and obviously our conviction is that we have not overused this tool.

Senator MILLER. If you have not overused the tool, then where does this inflation come from?

I grant you that——

Mr. MITCHELL. I think it comes really from the Government deficit.

Senator MILLER. All right, so you can blame the Congress for the Government deficit, because the Congress has seen fit to spend more than it takes in, and it has laid a foundation there.