Mr. MITCHELL. That is right.

Senator MILLER. But it seems to me that once that foundation has been laid, the house of inflation will not be built unless the Federal Reserve Board comes along and builds on to it through the expansion of the money supply through this monetization of the debt.

Mr. MITCHELL. Well, there are other ways out of this dilemma. The Congress could have a $20 billion deficit, and if it were financed out of savings there would not be any inflation problem.

Senator MILLER. Right.

Mr. MITCHELL. But financing it out of savings is impossible to do, given the kind of restraints that we have now. It would require a longer term instrument, at higher rates——

Senator MILLER. All right.

Mr. MITCHELL (continuing). Than presently can be paid on Government securities.

Senator MILLER. So you have the banks buy them.

Mr. MITCHELL. So the banks buy them on a short-term basis. Banks and other investors. Banks are really underwriters here for a while. Of course they are large holders of Government securities too.

Senator MILLER. All right, but if you then turn around and permit those banks to expand their credit capability by 10 to 1, as a result of buying those, through your open maret operation, then you have started to build that house of inflation, have you not?

Mr. MITCHELL. Well, we have tried not to permit this to happen to any larger degree than is necessary

Senator MILLER. Of course I am sure you honestly tried to do something about that.

Mr. MITCHELL. Yes.

Senator MILLER. But the fact seems to me to be inescapable that if you had not permitted this to happen, that we would not have had the inflation that we have.

Mr. MITCHELL. Well, I suppose if we had pushed a lot harder, we could have driven housing starts down another 200,000 or 300,000 but I do not know. Most people felt that was a terrible convulsion we had in the latter half of 1966. It was about as vigorous monetary restraint as we have had in the last 15 or 20 years.

Senator MILLER. Of course nobody wants to drive down housing starts, but it is possible, is it not, that those housing starts could have been assured by some other mechanism or some other activity. And I fail to see why an expansion of 10 to 1 through your open market policy would be necessary.

Maybe you would only have to expand it by 3 to 1.

Mr. MITCHELL. That ratio is fixed by the reverse requirement. If reserve requirements were raised, it would be less.

We did raise reserve requirements too. We raised them, if I recall correctly, twice.

Mr. BRILL. Yes.

Mr. MITCHELL. And the increases in reserve requirements reduced the expansive capability of this. This is one of the techniques of monetary restraint. It has been used.

Open market opertaions I think have always been on a minimum basis in terms of Government financing, and yet it is impossible to have a deficit of this size without having some monetary expansion rather than not having it.