do it that way you tend to go into the other direction into the inflationary picture.

Mr. VOLCKER. This is a complicated process, as you are well aware, Senator. It depends on where you cut into the total picture. What is happening in the total budget, as reflected in the small surplus, is that money is being taken out, at least in a small amount, on balance from the private economy. This should have some deflationary effect in and of itself, apart from the way we do the financing. We also have a large number of maturing securities to roll over. We will have to do some seasonal financing. The way we conduct our financing operations will have a further effect on financial markets and on anti-inflationary policy. And I can assure you that we will try to arrange this financing, and we will have to do it in any even in very substantial volume, in a manner and to the degree that such financing is an appropriate tool to dampen inflationary pressures. That is the burden of my statement that I am submitting here today.

Senator MILLER. I am sure that you will do your best. And I understand that it is a very complicated problem, and ties in with the Federal Reserve and the monetization of the national debt and the monetary policy.

The thing I wanted to bring out, however, was that it appears that there may be less holdings in the general public sector rather than more holdings in the short range, and that this could cause an inflationary impact. Therefore, so you are going to have to do something else to try to offset that for your refinancing operation.

Mr. VOLCKER. As long as inflation is the major problem for the domestic economy, we will certainly try to conduct debt management operations so that there is no inflationary impact.

Senator MILLER. I have just one other question at this time. I take it that the position of the Treasury Department would be that it would prefer to take—that they would prefer to have our Federal Government take purchasing power away from the American people by taxation rather than by inflation.

Mr. VOLCKER. I certainly think that is true, where that choice presents itself.

Senator MILLER. Now, if that is so—and the suggestion is made that we change our structure, our bookkeeping so that we don't worry too much about capital investments even though they might amount to a debt, and even though we might have to finance that—would not that type of a bookkeeping change, with, you might say, a toleration of an addition of $10 or $20 or $30 billion a year in capital expenditures—which would have to be financed—would that not lay a foundation for inflation?

Mr. VOLCKER. I certainly think that whether the expenditure is on current account, so called, or on capital account so far as the budget is concerned, that we would have to be concerned about the potential inflationary impact in either event.

Senator MILLER. And the increase in the debt would lay the foundation for that problem, would it not?

Mr. VOLCKER. If we simply segregated capital expenditures and automatically financed them by an increase in debt, there may well be an inflationary impact, depending on the existing economic conditions. This would have to be taken into account. I don't think by any segrega-