

Senator PROXMIRE. It is wonderful to hear a banker who has no *idée fixe* on higher interest.

Mr. SPRINKEL. It depends primarily on the state of the economy. I am strongly in favor of higher interest rates when the economy is healthy and rising rapidly. I think it is an important factor in preventing inflation. That is not our situation at the moment.

In terms of how we should define the money supply, it seems to me it depends basically on which is most closely correlated with economic change in the past.

It is a scientific question. Can we find any significant difference between the broad definition of the money supply in relation to economic exchange and the narrow definition with relation to economic exchange?

The best study that I am aware of trying to test various definitions of the money supply was made by Prof. Milton Friedman at the University of Chicago. There was really very little difference between alternative definitions, including time and not including time. Over the long pull, it turned out that the correlation which is slightly higher, included time deposits. However, I would argue that in the present situation one could very easily make a mistake by looking at the time component for a simple reason.

There have been two occasions in recent years in which the Federal Reserve raised the ceiling rate on time money, and many banks promptly raised the rate they were paying on time money. This occurred effective January 1, 1957, when it was increased from $2\frac{1}{2}$ percent to 3 percent, a 20-percent increase, and January of this year, when the rate was raised $33\frac{1}{3}$ percent, from 3 percent to 4 percent. On both occasions, it was followed by very rapid rates of growth in time money. If you will look at the chart that I have attached to my testimony, you will see that on page 437 the money supply, including time deposits, in the first several months of 1957, the rate of growth rose very rapidly, whereas the narrow definition continued to decline as it had for some time. A perfectly analogous situation occurred in the first several months of this year when, including time, the rate of growth rose very rapidly, although even by that definition the rate of growth has declined in the past couple of months or so.

In view of the fact that the early experience was shortly followed by a recession, suggests to me that looking at the more narrow definition immediately following a period when rates are changed on time money is the more truthful way to look at the data.

I would agree with Mr. Ritter that this particular time is one of the few occasions, the other was the first half of 1957, when it is extremely difficult to be absolutely certain that you are interpreting what is happening to monetary policy, or has happened to monetary policy in the last few months. It would be my view that we would be better served to look at the narrower definition.

Senator PROXMIRE. Professor Culbertson, I think you, and perhaps other members of the panel, referred to operation "nudge." I am wondering whether buying long terms, in a substantial way, would rig the market in your view.

The objection which Chairman Martin has given to us is that the Federal Reserve has bought as much as 20 percent of the long-term bonds in various periods in the past and if they get into this to any