

alternative monetary policies presently within the realm of possibility is very great, and may be decisive.

I would make the point, again, that exploring the matter in terms entirely, of interest rates may be misleading. If the Federal Reserve maintains a continuously restrictive policy in the sense that we have a reduction in the money supply and if, as I think would be the case, this caused continued weakening of the economy, a bearish situation, a falling off of investment demand, we should necessarily have weak demands for loan funds. So, interest rates, over a period of time, would not necessarily go up at all. They would go down. Ultimately, they would have to do down.

The lowest interest rates we have had in this country were in the early 1930's, when we had just reduced the money supply by something over a fourth, and had a great period of liquidation of credit. During most of the 1929-33 monetary contraction the interest rates were down. They were down because the adverse effect on the economy and the demand for funds of the monetary contraction (in conjunction with other unfavorable factors) more than offset the reduction of bank supply of loan funds on the other side.

So, interest rates are a very slippery criterion. In a very immediate sense, a more tight monetary policy would tend to push them up. But over a period of time you will find rather monetary contraction associated with low interest rates and economic stagnation.

Mr. SPRINKEL. I think the evidence is not 100 percent, but all of the evidence that I have read strongly indicates that the factor we should concentrate our attention on is monetary growth and not interest rates. Let me look at it in this way. Frequently we find these two criteria in somewhat conflict. If, for example, we have ample money in the sense that monetary growth may be growing at a certain satisfactory clip, it may appear in the credit market as if there is not enough money, because the ample money in the money supply sense has generated increasing demand for funds.

The increased demand for funds is resulting in higher interest rates and it looks like you have a credit shortage, even though you have ample money, unless you want to inflate the economy, which could be the result of increasing the money supply faster. On the other hand, in periods when monetary growth may be nonexistent, it may appear in the credit market as if we have a situation where there is plenty of money available. This could well be due to the fact that the restrictive monetary policy has resulted in slower economic activity, reduced demands for funds, and, even with the restricted quantity of money that is in the system, nonetheless interest rates are tending downward. So you will get conflicting directions depending on which you watch.

I would argue that historically, in my mind, the one criteria is monetary growth and not interest rates. I would also cite the period of the 1930's when, beginning in 1929, interest rates declined very sharply until the gold scare in 1931. Yet we know that monetary restrictions during this period were indeed severe.

I would not argue that we had lots of money and plenty of money because interest rates were going down in the early 1930's. I think that is entirely the wrong clue. I would argue we had insufficient money because the monetary growth was nonexistent during this period.