

Senator PROXMIRE. I certainly feel we should maintain our growth. But one of the prices we have to pay for a tremendous but free economic system is occasional dips in the economic activity.

Mr. ECCLES. That is right. I agree with that fully. Speaking of the twenties, I feel that the monetary policy was entirely wrong and not justified. Of course, during that time we didn't have the Open Market Committee. You didn't have a central bank functioning during the twenties.

One of the principal difficulties in the twenties was the manner in which the national product was distributed. I think there was too much saved. We had a situation where about 5 percent of the population got 38 percent of the income.

Senator PROXMIRE. You would agree that monetary policy is significant in its effect on the economy?

Mr. ECCLES. I agree it is very significant.

Senator PROXMIRE. Monetary restriction does tend to retard the economy and slow it down.

Mr. ECCLES. I think monetary restriction can stop entirely the growth of the economy.

Senator PROXMIRE. We had a situation as was brought out yesterday in which the money supply has not begun to keep pace with the GNP. We have a tighter relationship of the money supply to GNP than we had even in the 1920's in which you say the monetary situation contributed to our worst recession. We have a situation where the money supply is about 27 percent of the GNP.

Mr. ECCLES. We have a situation today that makes it a little difficult to determine the money supply.

Senator PROXMIRE. That is true.

Mr. ECCLES. There has been a large increase in savings due to the 4-percent interest paid since the first of the year and treating them as demand deposits in many parts of the country. Under these conditions you can't measure your money supply to the same extent that you could when you considered only demand deposits and currency. There is a very substantial part of time funds that are in effect your money supply.

The excess funds of corporations have gone into time certificates to an unusual extent. They are negotiable.

Senator PROXMIRE. This is true.

Mr. ECCLES. You have savings by individuals that in effect are equivalent to a demand deposit, so that the supply of money is not short. The interest rates relatively speaking are not high. I don't think a lower interest rate would be of any help. If the money was unavailable that would make a difference but there is an abundance of money available.

Senator PROXMIRE. I am not talking so much about lower interest rates. I recognize that interest rates are reasonably low on the basis of our historical experience and so forth. I am talking about avoiding higher interest rates in the future.

My time is almost up. I would like to ask my last question.

Mr. ECCLES. The corporate market and the mortgage market rates are not high. They are lower than they are in Europe, than they are in any other place in the world.