money supply which has been intended to keep pace with the increasing population and the increasing transactions or GNP of our country.

I submit we have not had growth in money supply that comes close to paralleling the growth in the gross national product. Nowhere near it. As a matter of fact, it has been dropping steadily and dropping quite sharply. I am not talking about money supply on my own terms. I am talking about them on the basis of a definition that the Federal Reserve uses on its own bulletin on page 853 of the current issue, Money Supply and Related Data. They include demand deposits and currency only.

The same definition is used by the Council of Economic Advisers in their economic indicators, demand deposits, and currency.

Mr. BRYAN. That is correct.

Senator PROXMIRE. On this basis, the money supply has been dropping sharply in relation to gross national product and the result, in my judgment, has been that we are following a policy of restraint, of some tightness, at a time when most economists feel we may be moving toward recession.

Mr. BRYAN. I think that is well stated, sir, and a very challenging statement. Undoubtedly, if we supply reserves to the banking system, we encourage a fall in interest rates. Undoubtedly if we fail to supply reserves to the banks and borrowing demand is heavy, then, of course, interest rates tighten.

The matter of the money supply, I must frankly confess, is one that puzzles me. I have been on every side of that argument since about 1936. As you know, some scholars include in the money supply time and savings deposits.

I have, myself, tended to hold to the view that the money supply is demand deposits and currency, but I am deeply puzzled about the present situation. I ought very frankly to speak my puzzlement. The Federal Reserve can supply reserves.

Senator PROXMIRE. Let me interrupt to say that if you do define money this way, then your statement is not true. It is not accurate. You say in your paper we have had a growth in the money supply, which has been tended in turn to accommodate the increasing population and the increasing transactions of our country. Increasing transactions are GNP; it has not begun to keep pace with that.

Mr. BRYAN. Can I introduce a chart into the record?

Chairman PATMAN. Certainly. Without objection, it is so ordered.

(The chart referred to follows:)