Mr. BRYAN. The attached chart is the familiar scissors diagram starting both series at the same base year.

The reserve growth, amounting to about 3 percent per annum since 1947, has exceeded the average annual rate of increase in population, which amounted to 1.7 percent. This expansion in bank reserves, adjusted for changes in reserve requirements, permitted an increase in the money supply conventionally defined, of 1.9 percent per annum. Those who also include time and savings deposits at commercial banks in their definition of money supply can point to a 3-percent annual increase for the 1947–61 period.

How is it that these lines could diverge so sharply? I believe the main part of the answer is to be found in the preceding vast wartime increase in most measures of liquidity, principally including the money supply (demand deposits and currency) which went up from 38.7 billion to 102.3 billion from June 30, 1940, to December 31, 1945. The chart is merely illustrative of a problem we have been confronting in the postwar world.

I do not wish to be interpreted as implying that the postwar increase, either in the reserve base or the money supply, is to be deemed appropriate in other circumstances.

The thing that is bothering me about this present situation is this, Senator Proxmire. We supply reserves to the banks. The banks, as was pointed out by the chairman, may use them either to make bank loans or invest. Once that has been done, the Federal Reserve System loses control of where those deposits appear. The people who are the final recipients of a municipal bond issue in Huntsville, Ala., or Texas, or any place, have the choice as to whether they will put those in demand deposits, savings deposits, or time deposits.

For quite a while now, the American people have been putting the deposits, the final recipients of the money, increasingly in savings and time deposits. I think the bulletin recently published something on that. The question that bothers me, and I am sincerely troubled about it, is whether or not some considerable portion of the time and savings deposits are not now properly counted a part of the money supply.

I will not go with those people who say that the total of savings and time deposits is a part of the money supply. I think that is stretching the case.

Senator PROXMIRE. Even if we take that extreme case and include time deposits with demand deposits and currency in the money supply, and savings and loan, we still find that there is a steady drop in the liquid asset relationship to GNP. We find it was something like 85 percent in the middle of 1954, and it has dropped down to some 76 percent or so in the beginning of 1961, the last time for which figures are available in the Federal Reserve Bulletin.

So there does seem to be a drop in liquidity in the economy in terms of the job liquidity has to do. Every time this is brought to Mr. Martin, he says, "Yes, but you have a difference in velocity." But there is always a speedup. By definition you can't have anything else. So it would seem to me that the statistical data reinforce the argument that the monetary authorities are following or seem to be following a policy, a gentle and gradual policy, but it is a policy, which you say so well, of discouraging inflation, and you have succeeded brilliantly in this regard.