United States and the Congress is trying to expand our economy. You are at war with the President and Congress. I can see why you should do that if there is any real pressure on prices. I think you would have an excellent case if unemployment should go down to 3½ or below 4 percent. You would have a strong case if we were at 90 percent of our industrial capacity. But we are not near that.

Mr. MARTIN. I agree with you on the pressure of prices. It is not here. We have had pressure on prices previously. The real reason for waging a battle against inflation is because it always leads to deflation. For example, in 1957 we had an increase in the dollar value of our gross national product which was running at the rate of a billion dollars a month without any additional goods and services being created; that is still part of the virus in the economy that we are having to deal with today.

If we could eliminate all of the past, our problem would be relatively easy. But we have this constant flow from past to the present. I can assure you, Senator, that our objective—certainly I can speak for all of the members of the Open Market Committee—in monetary policy at the present time is to do everything in our power to help reduce the level of unemployment.

With regard to the deficit, which you raised and about which there are many sincere differences of judgment, I think you have to realize that pressure at some point has to be brought to reduce expenditures. You can't galvanize the economy to higher rates of activity if the deficit is going to get too large. I don't believe you can say dollar for dollar that the economy would be held back in any way by trying to draw on the savings stream to finance the deficit rather than financing it by bank-created money. But I will concede to you that there is a little validity to the point.

Senator PROXMIRE. Certainly, what you are going to do is to have a drop in your payroll deductions of the equivalent of $25 a month for some employee, at the same time sell that employee a series E savings bond of $25, so there is no change. Instead of having the money to spend he puts it in a savings bond, and we are where we started.

Mr. MARTIN. If you isolate it at any given point then it looks like there is a mathematical relationship, but, in my judgment, this mathematical relationship does not hold at all because of the flow through time.

Senator PROXMIRE. You would concede this would slow down the expansionary effect?

Mr. MARTIN. Depending on the amount.

Senator PROXMIRE. It would certainly slow it down.

Mr. MARTIN. Don't forget that the central bank is always faced with the problem of growth in the money supply as the economy grows. It is a matter of judgment. Our judgment may not be the best. I am sure that members of the Congress will certainly let us know if they think our judgment is wrong.

Senator PROXMIRE. Let me try this once again. You would agree, even though a difference in degree, there would be a definite slowdown in the expansionary impact of a tax cut if you sold the bonds to the public to the full extent?

Mr. MARTIN. If we covered every dollar without any expansion of the money supply; yes.