Chairman PATMAN. It used to be about $18 billion. Does that indicate the contraction that has been going on? I wouldn't think so, because the rules have been changing on the reserves. We had the vault cash amendment and then you have changed the reserve requirements of the banks.

Mr. MARTIN. There was a reduction in the reserve requirement.

Chairman PATMAN. You can't say it has increased.

Mr. MARTIN. I am talking about the statutory reserve requirement that you have placed on us.

Chairman PATMAN. I am, too. I think I will yield to Mr. Reuss to ask questions at this point. Mr. Reuss?

Representative REUSS. Mr. Martin, during the controversy which has engulfed the Nation for the last 8 weeks on whether or not to have a tax cut, you testified on at least two occasions that you saw no need to give your view as to whether a tax cut was justified or not. If there were a tax cut, you would do your best to see that the resulting deficit was financed out of so-called real savings and not out of bank credit.

I pointed out, when you made that statement to the Banking and Currency Committee of the House a few weeks ago, that the persistence of the Federal Reserve in such a policy, would wipe out any gain from a tax cut. If you are going to require the deficit to be financed out of savings, a tax cut would result in very little stimulation.

The President, on Monday of this week, announced that there would not be a tax cut this year. I would judge that one of the elements which influenced his decision was the feeling that there is not much point in a tax cut which is then immediately countermanded by an equivalently tighter monetary policy.

Now, in this morning's presentation to us, you tell us something a little different. You say that a certain amount of money creation to meet the legitimate needs of a growing economy is a necessary and normal function of the banking system. If there were a Federal deficit, you say the banks would use some of this new money to purchase Government securities.

Specifically, you contend that additions to banks' holdings of Government securities due to normal growth in the money supply do not represent the financing of Government deficits with bank-created or printing-press money.

I am glad to hear you say this. However, I am impelled to add that your acknowledgment of an essential duty of the system, namely, to increase the money supply at a decent rate of 3 percent a year instead of the current unsatisfactory rate, comes after it has been decided to delay active consideration of a tax cut.

If you did add to the money supply at the rate of 3 percent a year, your action would have some relationship to the minimal growth needs of the national economy. The banking system, in the event of a tax cut, would be able to make some contribution to financing a deficit. No one in his right mind suggests that the banks need finance all of a large-scale deficit.

I wish you had mentioned this a little earlier.

Mr. MARTIN. I did, Mr. Reuss. I am sorry you did not understand. That was certainly my intention, to make that clear, because that has been monetary policy all the time. We wouldn't have any Federal