

Reserve Act if we didn't have this problem of managing the supply of money.

Representative REUSS. But there is a little question of semantics which is important to me. I refer you again to your statement where you say—

Additions to banks' holdings of Government securities due to additional flows of savings through to this particular intermediary or to normal growth in the money supply do not represent the financing of Government deficits with bank-created or printing-press money.

What do they represent? It seems to me that any increment to the money supply represents "bank-created" money. The banks would use part of it to buy U.S. securities which were issued during a deficit period. Why doesn't that represent financing part of the deficit with bank-created or printing-press money?

Mr. MARTIN. To get back to my word picture that I like of the money stream—

Representative REUSS. Stay out of the swamp.

Mr. MARTIN. Yes, exactly. That is exactly what we are trying to do. That is the element of judgment. That is where we have to be careful when we talk about free markets. We don't have completely free markets any more in that sense. We haven't had since the Federal Reserve Act was enacted, but we have this problem of money management, to try to keep this water in the stream.

Representative REUSS. But if the banking system, with such increments to the money supply as are created by orderly additions to the money stream, purchases Government securities, why isn't that the financing of at least a part of the Government deficit with bank-created money?

Mr. MARTIN. Because they don't have to buy the Government securities with it. This is where a rate comes in.

Representative REUSS. If they do.

Mr. MARTIN. But that is not necessarily what happens. That is the process I am talking about here. We have to make the judgment on what this supply should be.

Representative REUSS. Of course you do. I think this is a distinction purely in degree, not in kind. If you create new money at the rate of 3 percent a year, a rate which I thought we both agreed was about right, and that new money is used to buy Government securities issued to meet a deficit, I think that is financing the deficit with bank-created money. If you create money at a reckless, improvident rate of say, 8 percent a year, and that money is used to finance a deficit, then that is equally used to finance the deficit with bank-created money.

The distinction is not one of financing deficits with bank-created money, on the one hand, and not doing so, on the other. The actual distinction is one of financing too much with bank-created money, as opposed to financing just the right amount with bank-created money.

What about that?

Mr. MARTIN. I have no comment on that. That is what money management is.

Representative REUSS. When you create just the right amount of new money, and this is used by the banking system in part to finance