

Senator PROXMIRE. There we go.

Mr. MARTIN. I think it is important. If you believe that you can make the economy——

Senator PROXMIRE. I do not at all. I do not think you should try to make the economy. But I do believe you can have influence on the economy. It would seem to me that if you expect the situation to be depressing, if you expect a contraction in the economy, if the growth is going to be inadequate, if income is going to be inadequate, then if that is the forecast, then you would follow a different policy than if you expect inflationary pressures to continue during the coming months.

In doing this you, to some extent, regulate or influence the economy.

Mr. MARTIN. We certainly do. That is why I used this phrase "leaning against the wind." We try to watch the interplay of forces and do just that. Meeting at 3-week intervals, we may change a number of times in 9 weeks because you are rolling with the dominant force. But when you talk about forecasting, you say what the next two quarters will be. We would think we were stepping out of our field to have our policy determined on the basis that the GNP was going to attain a certain level by the end of the next two quarters.

Senator PROXMIRE. Let me try to pursue the point that Congressman Reuss is raising so ably. You said that as one example, the only example I think you have given us, of easy money promoting unemployment or promoting a situation in which we had an economic contraction, 1929.

As I said this morning the Friedman-Meiselman study was introduced before this committee by Vice President Sprinkel of the Harris Trust in Chicago the other day. This careful scholarly study shows that all economic declines without exception were preceded by monetary restrictions and all recoveries by monetary ease.

For example, the largest monetary contraction is followed by the largest economic declines, 1921, 1929, 1937. The study selected 1929 on the basis of very careful analysis of the data and statistics and the facts as a year in which we had monetary contraction.

I certainly recall that in 1929 we had high interest rates. We clearly had, on the basis of the charts I had this morning, a relationship between the monetary supply and the GNP which proved that we had monetary tightness.

That was followed by serious depression. So the only example you give us of easy money is an example which other experts on the basis of data and factual analysis, not opinion, say was tight money. Can you contradict the analysis of Friedman and Meiselman as given to us by Mr. Sprinkel?

Mr. MARTIN. I think this is where you get into an endless argument. I happen to be convinced that it serves no purpose to try to say which comes first, the chicken or the egg. But I insist there are four really basic elements in the economy.

One is budgetary policy. The second is debt-management policy. The third is wage-cost policy. The fourth, and I place it in that order as a matter of my personal judgment, is monetary policy.

If you have an unsound monetary policy contributing to unsoundness in these other things, then you have a real state of chaos.