

easy money policy. I am not talking about today or any specific time. I am talking about generally.

I have said publicly and continue to say publicly that no central bank will follow a deflationary policy in the sense of bringing about downward adjustments in order to achieve an equilibrium.

All the central bank can do is to permit interest rates to have sufficient reflection so that people see the malaise that will be caused by continuing down the path of believing you can have your cake and eat it, too.

Monetary policy has some effectiveness there. I believe that in the period preceding the last 10 years we had a pegged market for Government securities and monetary policy was of very little influence.

Senator PROXMIRE. Before 1951?

Mr. MARTIN. Before 1951. I say in the time that I have been fortunate enough to be in the Federal Reserve or privileged enough, I believe we have had some influence. I don't think the influence has been as great as some people have thought.

I think that what we are up against is that there is one school of thought that thinks if you could just push interest rates to zero there would be no problem at all. There is another school of thought that thinks if you just put interest rates up to something like 10 percent that everyone would be benefited.

Senator PROXMIRE. Neither of us belong to either one of the schools. We both agree that interest rates should vary depending on the status of the domestic economy. When we have substantial unemployment and unused capacity the interest rates ought to be encouraging people to borrow.

Mr. MARTIN. That is right. I like to return to the point you made in reading those excerpts this morning. There are some people who have a mystical faith in high interest rates. There are equally a lot of people who have a mystical faith in low interest rates.

All I am saying is that you and I are in agreement, that where we ought to be is in the middle group. We are trying to get interest rates that are neither inflationary nor deflationary and I believe we have come a long way toward it by getting a larger supply of savings in the last couple of years. We have succeeded in financing municipal and mortgage credit demands at lower levels than heretofore and the volume of such financing has been very substantial.

One of the things that worries me today, and I say this publicly here, is that if money is kept too abundant that you will undergird some weak real estate situations that would be better off if not undergirded by pressures to invest mortgage money at consistently lower rates.

We had an adjustment in the securities market and we came through very well. Let us hope we don't have to have any more adjustments of that type.

Senator PROXMIRE. What concerns me far more than the present status of monetary policy or what happened in the past few weeks, we read so much by responsible well-informed financial writers that we are going to have higher interest rates.

We hear a lot of talk about that from abroad. The Treasury offers these 30-year, nearly $4\frac{1}{4}$ bonds and sells less than half of what they were ready to sell.