One of the arguments given is because people expect interest rates to go higher in the near future for long-term obligations.

What I am particularly concerned about is not the past. I am earnestly hoping in the future we are not going to have a policy of having the two great instruments of national economic policy, fiscal and monetary policy, going in exactly the opposite directions.

This is what we read over and over, we will have a deficit financed by a tax cut and we are going to have higher interest rates at the same time. It seems to me to be a ridiculous contradiction. I would certainly agree with you that they ought to work together.

In your statement you say you have stated quite explicitly my belief that such deficits as we may experience whether they are due to a shortfall of revenue under the existing tax structure—even if you have no tax cut, even if you have no increase in spending—or an increase in expenditures or a reduction in tax rates, all of them should be met by borrowing from the real savings of businesses and individuals and not through the creation of money through the banking system.

This means even if we have no tax cut, no increase in Government spending. But the deficit increases and it could only increase under those circumstances—if business gets worse—nevertheless the monetary policies are going to follow a policy of putting the screws on. They are going to follow the policy of soaking up what money is available.

So if John Jones getting his little wages is not going to have an increase in wages and his wife is going to be laid off, he will be persuaded to buy bonds so he buys even less.

What you say here is much more discouraging than what you told us before, that you would finance a tax cut deficit this way.

Mr. MARTIN. I have always maintained that the best way to finance a deficit is through savings—real savings—and I am sure that is the soundest way to do it. We have some leeway in our money supply figures. We have certainly not erred, in my judgment, on the side of abstaining from financing with bank-created money. We just have not erred that way. The errors have been the other way and that is what has caused us so much trouble.

Senator PROXMIRE. My time is up.

Mr. MARTIN. That is what happened during the war. This money supply that Mr. Patman was talking about this morning, I don't know what the money supply ought to be in relation to the GNP. I am convinced it has been consistently too high.

If you could have a scale by which you could precisely measure this it would be easier.

Senator PROXMIRE. You say it is too high. It is almost the lowest that it has been in history. We have to go back 30 or 40 years to find any situation comparable. But you say it is still too high?

Mr. MARTIN. In terms of present levels of economic activity I don't have any question that it is adequate.

Chairman PATMAN. Senator Javits.

Senator JAVITS. Mr. Martin, are you still a constituent of mine?

Mr. MARTIN. I am.