I still am not at a point where I feel I could convincingly explain to anybody the connection between tax rates and interest rates.

I have more difficulty understanding that than any part of this whole argument. I am thinking of what I consider to be—I am glad I am not running it—some pretty bad management of the affairs of the Federal Reserve last year, when the Federal Reserve was proceeding to make money and credit available at an annual rate of increase of almost 7 percent over 1965 up until May of 1966; then very suddenly, the Federal Reserve just cut off all increases, and almost caused a money panic sometime late last year. Now this year, with our economy going at less than an exuberant pace, the Federal Reserve makes available increased money and credit again, at an annual rate of something between 9 and 10 percent, say, whatever the figure is for the first 6 months of this year. Then, I am told that there is a direct connection between what happened last year with respect to interest rates on money and a deficit that the Government was incurring and the lack of a tax rate increase—it is a little hard for me to believe.

Mr. Martin is going to be before the committee sometime before we get through. I am going to be interested in learning exactly why there was, for a period of months, a great percentage rise in money and credit, and suddenly, it was cut off and equally suddenly turned on again, in February or January of 1967.

It seems to me, just applying commonsense to it, that the supply of money and credit should be regulated a little bit more evenly than that.

Now you can say whatever you please, but get me straight on this. How was it that monetary controls did not have any affect for a while, and then when the effect was felt, the responsibility for adjusting to it was passed to the Congress? How are Members of Congress to judge the need for tax restraint against last year's pattern of monetary controls? Sometimes I think that we get the buck passed to us unduly. I know that when it is passed to us we can't pass it to anybody else.

Mr. Ackley. Mr. Chairman, may I begin by saying that I have not at all times agreed precisely with the actions that the Federal Reserve has taken with respect to the management of our monetary policy. Yet I think we must recognize that monetary policy is designed to play a stabilizing role, one in which it does try to moderate movements that are in the wrong direction and support those that are in the right direction for the economy as a whole. The Federal Reserve, as early as December 1965, moved—prematurely, in the administration's judgment—to a policy of restriction, and yet it is a remarkable fact that in the first half of 1966, the money supply, narrowly defined, did grow at 4½ percent annual rate, followed by a decline at about a 1-percent rate in the second half of 1966.

In other words, it took a while from the time that the Federal Reserve decided that restrictive measures were appropriate before they had any impact on this particular measure; namely, the supply of money.

This, of course, is only one evidence of monetary policy and the effects of monetary policy. The most significant impact from the standpoint of the economy is the availability of bank credit and the level of interest rates.