

Chairman PROXMIRE. Senator Javits?

Senator JAVITS. Mr. Martin, may I join with the committee in welcoming you here. We had a little contretemps, Mr. Martin, with your associate in Government, Secretary Fowler. Secretary Fowler would have us believe that your action in raising the discount rate in 1965 was a calculated and deliberate action by the Federal Reserve Board following general policy of the administration, rather than as it was very clearly an independent act by the Federal Reserve Board because it found an economic situation in which the administration had not acted, and therefore it had to act. Now which is correct?

Mr. MARTIN. Well, I wouldn't want to enter into a controversy with the Secretary of the Treasury, with whom I have worked very successfully and whom I like very much. I would simply point out that in this matter of coordination, there has been no problem of information or of communication. There have at times been differences of judgment, and there was a difference of judgment at that particular time.

Now the Federal Reserve has a responsibility, as I see it, under the present law, for defending the dollar. Our independence is nothing that we flaunt, but we do have a responsibility to discharge our duty as we see it. As I testified earlier here, I think it would have been wiser if we had moved earlier rather than December of 1965.

There were differences of opinion, differences of judgment, honest differences between individuals on policy. I, therefore, think this was just a difference of judgment.

Senator JAVITS. Mr. Martin, the reason I asked you this is because I think we have the right to know what the Federal Reserve would do, if we don't raise taxes, because obviously in 1966 you waited for an increase in taxes, and it wasn't forthcoming, so you acted. Now suppose we don't raise taxes. What are you going to do then?

Mr. MARTIN. Well, it will depend entirely on the course of the economy.

Senator JAVITS. But you will act independently again.

Mr. MARTIN. We will indeed. When I say "act independently," we are making every effort at all times to coordinate our activities with the administration, and at any time we act independently, it is not because of any desire to flaunt our authority. It is purely out of the belief that this is our duty under the law.

As I testified in December of 1965, there was a problem of financing at the time. Even within my own Board, there were some differences. I just want to emphasize my conviction that markets don't wait for kings or presidents or prime ministers or secretaries of the Treasury or Chairman of the Federal Reserve Board. They have to be dealt with at the time.

Senator JAVITS. Now you are, as I understand it, because it is a necessary element of my question, in favor of the 6-percent tax surcharge.

Mr. MARTIN. That is correct.

Senator JAVITS. Are you in favor of waiting the 90 days that Gardner Ackley said we could wait, in order to look over the economic situation?

Mr. MARTIN. I would be in favor of enacting it right now.