Mr. MARTIN. I am in complete accord with that, and I can assure you that the Federal Reserve is going to do everything in its power to see that its monetary policy is coordinated with the fiscal policy of the Government. We have no desire to be obstreperous. Our desire is entirely constructive, and we are sorry that some misinterpretation has been put on our action in 1965, to the effect that this was our intention.

Representative WIDNALL. Thank you.

Chairman PROXMIRE. Congressman Bolling?

Representative BOLLING. Thank you, Mr. Chairman.

Mr. Martin, I would like to join with my colleague from Missouri in his comments with regard to your long and useful public service. I have had the privilege of being on this committee for a good deal of that time, and while I haven't always agreed with you, I have admired your capacity, your integrity, and I think above all, your stamina.

I hope, too, that you will continue in this position, because I think that a great deal of the confidence that some of us here and others in the country have in the stability of the economy is based on your ability to be independent and to stand up against extremely difficult burdens that sometimes administrations and almost always Congress has put upon you.

Mr. MARTIN. Thank you, Mr. Bolling.

Representative BOLLING. Now you have indicated that your concern about the economy at the moment was these inventories that accumulated as you indicated in the second and third quarters. You are at the same time optimistic that they will be worked off in such a way that we will have—I don't know exactly how to say this and I don't want to put words in your mouth—a return to what, expansion in the third and fourth quarters of this year?

Mr. MARTIN. That is correct.

Representative BOLLING. Assuming that your estimate of the situation turns out to be correct, that we do work off the inventories, that we do have a return to expansion, and a third thing, that the Congress will talk a good deal about saving money but that it will not save any out of the budget—in effect, the budget or more will be appropriated—what then might be the effect on the economy of the failure by the Congress to enact the tax increase proposed by the President? Would there be an enormous pressure on the monetary authority perhaps similar or even greater than the one that existed during the months of pressure last year?

Mr. MARTIN. That is my judgment, and let me put this to you if I may, Mr. Bolling, in a simple way that appears to me. Not everybody agrees with me quite on this, but I think that when you have full employment and you have no unutilized plant and equipment capacity, and the savings of businesses and individuals are unequal to meet the demand for credit, that the pressure is put on the central bank to create money, and if we create money under those circumstances, that spending is bound to result in higher prices.

This is the root cause of inflation. I see no problem at all in the central bank supplying additional money to the economy, until we get to the area of full or virtually full employment, with no efficient unutilized plant and equipment capacity. If at that time you print