

Representative GRIFFITHS. Why not? I mean everybody has to eat—

Mr. DEWALD. Well, the reason, I suspect, is associated with the fact that the velocity of money is a reflection of the usefulness that money serves in peoples holdings of various assets, and if interest rates are high, if the opportunity cost of holding money is high, they will hold less of it utilizing the money more intensively. Hence, as a result you could have the same income associated with a number of different velocities depending on the particular kind of institutions that are there that can issue assets that are utilized by the public in making payments.

It is a complicated affair, of course. It is associated not just with market interest rates, but it is associated with a market mechanism, and that reflects not just these prices, but it reflects the institutions that are available to provide services.

Representative GRIFFITHS. Thank you. Thank you, Mr. Chairman.

Chairman PROXMIRE. I would like to get back very briefly because I do want to get on to some other points, but I am fascinated by looking at these interest rates in the 1930's. They did reach a peak for 3 months' Treasury bills of less than one-half of 1 percent in 1937.

Mr. DEWALD. Yes.

Chairman PROXMIRE. They are now more than 10 times as high as that. During most of this period they were yielding less than one-fifth of 1 percent, they were very consistently less. In 1940, for example, they were yielding a little more than one one-hundredth of 1 percent. Furthermore, when you go over and take a look at prime commercial paper you find that the rate kept dropping, and this would, it seems to me, be a better reflection of the impact on the commercial part of the economy.

Here is what they were: 1933, 2.73 percent. The following years 1.73, 1.02, 1.76. In 1938 they dropped again to 0.75. In 1937 they came up, but they came up to 0.94. This is an annual yield. Then 0.81, 0.59. You can see why the bankers were not exactly Roosevelt supporters. But at any rate the argument I am making is that I do think there is a lot you can do with monetary policy and especially in times like this, but I do question whether or not in a period of very serious depression you can do a great deal with monetary policy. It has to be, you have to have a fiscal policy that is pretty emphatic and far reaching if you are going to really stimulate the economy very much. Well, you are right about that 1936 policy which was, of course, wrong and perverse doubling the reserve requirements, recognizing that it still seems to me the monetary policy in the 1930's was about as expansionary as it could be made, and if we had doubled the supply of money, I don't know just how that money would have gotten into circulation. After all, it was so easy to borrow at such low rates would you say instead of being able to, if instead of commercial paper yielding three-quarters of 1 percent, it had yielded half that, it would have made any difference?

Mr. CHRIST. I think by the time we got to 1933, and maybe you will like this being a Democrat, it was a little late. If we look at the Federal Reserve's action in the period from 1929 to 1933, they were doing the right thing with discount rates for a couple of years from 1929 to 1931, but then in 1931 they raised the discount rate substantially, and