

they will do better. But even since World War II there has not been a recession in the United States where the stock money did not decline in absolute terms at least for a while and take at least 9 months to catch up to its previous level and start to grow again and I feel that at a time when people are uncertain, which they are in a depression, and when they want to hold more money rather than less because of this uncertainty that it is a great mistake for the monetary mechanism of the United States to allow the amount of money to decline.

Chairman PROXMIRE. Now, Mr. Dewald, how about the other side of this, aren't there circumstances where the situation is so inflationary, and the unemployment rate is consistently low and expected to be lower, and perhaps you have military commitments overseas that we expect to go on for a long, long time and so forth, aren't there such circumstances where it might be wise for a period not to increase the money supply at all, maybe even to retard the money supply in order to restrain the economy?

Mr. DEWALD. Yes.

Chairman PROXMIRE. Is this conceivable?

Mr. DEWALD. I certainly agree that it is. But first, getting back to the point you raised in terms of the professional qualifications of the people who make these decisions I think you judge people not on the basis of their degrees, but on the basis of what they do and on those criteria, certainly the kind of performance that we have observed from our Federal Reserve with its Ph. D.'s today is not far different from the performance of the Federal Reserve or central bankers anywhere over the course of the long history of central banks.

I think also in this period of inflation as you suggest, that moderating the level of monetary growth to a somewhat lesser growth rate than its average, would indeed make sense. But you should know that monetary policy typically has not taken an independent course. That is associated with a particular myopia that is present in people who run central banks whether they have Ph. D.'s or not and that myopia, I think, is associated with looking at something called money market conditions or interest rates as a measure of what it is that the monetary authority is doing, rather than looking at the actions that are actually taken by the monetary authority.

Look at the present period, there was a tremendous budget deficit last year and this year. What happened to money last year? Did monetary policy take an independent stance of his budget deficit? It certainly did not, and if you look back in history you see exactly this same pattern of response. I shouldn't make such speculative arguments, but it is conceivable that the kind of thing that happened in the year ended mid-1960 which was a very sharp decline in the money supply, was accountable in part to the fact that the Federal Reserve was just laggard in its response to the economy but in part it was induced by the tight fiscal stance of the preceding year. The very big increase in the budget surplus in 1959 certainly played a role in this very tight monetary policy. And with rare exceptions, monetary policy and fiscal policy rather than standing independently have stood together during periods of inflation as well as deflation.

Chairman PROXMIRE. Well, after all, I am not sure I understand when you said independent, are you arguing that monetary policy