Mr. DEWALD. Well, you do it on the basis that people cannot be fooled indefinitely by the changes in value of money. Money is a kind of veil in the long run. People get their pleasures out of other things than money, for the most part.

Chairman PROXMIRE. You are talking about Confederate money. [Laughter.]

Mr. DEWALD. Well, let us hope that is not an apt analogy.

No; I am talking about our money and, the reason why people demand such high rates of interest now on the loans that they make, and the reason why people are willing to pay them is because of the fact that there is general expectation of a decline in the value of money.

A person, in his right mind, that is, is not going to lend a dollar now at the rate of interest of 5 percent, if he expects the value of money to be worth 10 percent less or 5-percent less, or whatever a year from now.

Chairman PROXMIRE. So you think the trouble is that too many people feel the Federal Reserve Board is going to continue to have this expansive policy of increasing the supply of money at a rate more rapid than the growth of the economy.

Mr. DEWALD. Yes. The people in the money market and other investors are very sharp. They make a handsome living by anticipating what is going to happen to the economy over its future course.

Chairman PROXMIRE. They figure that this is the case because this is one of the two instruments, along with fiscal policy, for preventing unemployment, and they feel that—or reducing unemployment, keeping it at the lowest possible level, and they feel that the President will appoint members of the Federal Reserve Board who are going to have that in mind, and the result of that is going to be a long-term inflationary policy.

Mr. DEWALD. Yes.

Chairman PROXMIRE. Well, let me ask this other question which Mr. Henderson of the committee staff has just handed me. It is this: Why are you so confident that with stable money growth, variable performance of interest rates, on both investment capital and on money market instruments, will not induce instability in investment?

Mr. DEWALD. That must be directed at me, I guess, since that was a point I made in my paper.

I am confident of this on the basis of the fact there are strong natural tendencies for greed to rule on this matter, and speculators, otherwise known as investors, will take positions on securities when they anticipate that a price change is temporary, and to the extent that a short-term money market dealer, for example, expects that interest rates are relaively high today, and he expects them to fall, he will jump into the market to take a position in that security in order to earn a capital gain because of the expected decline in the interest rate and increase in is value in the future.

At least, this is the experience that we have observed historically in the United States when we did not have the Federal Reserve acting as a shock absorber on these things, and this is the experience, as I indicated, that you see all throughout the world.

Chairman PROXMIRE. The point that Mr. Henderson is making is that the Fed's discretion sometimes creates instability in your view, and will not rules do the same thing?