

Chairman PROXMIRE. It is still rising and it is rising at a substantial rate.

Mr. MITCHELL. 3.7, I believe.

Chairman PROXMIRE. It certainly is not a restraining rate right now.

Mr. MITCHELL. 3.7? Oh, yes, I think it is.

Chairman PROXMIRE. It is rising at a rate more rapidly than the real GNP has been growing historically. So you could argue that this is—

Mr. MITCHELL. This is about what real GNP is, is it not, 4 percent?

Chairman PROXMIRE. I am talking about the longrun growth in GNP. It is true that real GNP grew rapidly the first quarter of the year.

Senator MILLER. Would the Chairman yield at this point?

Chairman PROXMIRE. Sure.

Senator MILLER. Are you saying, Governor Mitchell, that the increase in the money supply or that the rate is premised upon the real increased GNP as a satisfactory measurement?

Mr. MITCHELL. I was just saying—

Chairman PROXMIRE. I brought the GNP in.

Mr. MITCHELL. Yes.

Chairman PROXMIRE. My point is that if the money supply is growing at a more rapid rate than the rise in the GNP, then you can argue it has an expansionary influence in the economy.

Mr. Brill is shaking his head, I see—otherwise you can argue it tends to have a restraining influence on the economy. Why not?

Senator MILLER. What I am trying to bring out is whether or not the Board uses that kind of a guide in its considerations of the growth rate of the money supply.

Mr. MITCHELL. You would not take a 1-to-1 relationship here. If GNP is rising at 4 percent, that does not mean that money supply should rise at 4 percent for the simple reason that turnover is rising so rapidly.

Chairman PROXMIRE. But turnover is a function in part of the money supply.

Mr. MITCHELL. Yes.

Chairman PROXMIRE. If you vary the money supply rate of growth, the velocity will tend to vary in response.

Mr. MITCHELL. No; it is increasing as a result of technological changes. In New York City now, turnover of demand deposits is two and a half times a week, 128 or 130 times a year, and 10 years ago it was half that. Turnover has doubled in a decade.

So money supply does not have to rise as fast as GNP, in order to provide its transaction function.

Chairman PROXMIRE. You are making an argument against yourself. Then you are arguing that the 3.7—is it a 3.7 increase in the money supply?

Mr. MITCHELL. That is in the proxy.

Chairman PROXMIRE. In the proxy?

Mr. MITCHELL. Yes; in the proxy.

Chairman PROXMIRE. At any rate, the money supply increased more rapidly than that?

Mr. MITCHELL. That is right, it did.

Money supply between May and November increased 8.4 percent and since December it has increased 5.6. Let me give you the others.