Time and savings deposits at banks were increasing May to November 14.7, now increasing 5.5. That is a two-thirds reduction in the rate of that increase. And deposits of thrift institutions increased May to November 9.1, and now it is 6.1, a drop of a third there.

This is quite a change in these annual rates.

Chairman PROXMIRE. All I am saying is that there is some prima facie case that the Federal Reserve Board's conduct in monetary policy can be criticized.

As I say, the recessions of 1949, 1954, 1958, 1961, the monetary supply was going down. You can make all kinds of rationalizations that there were other reasons or that it was not really quite as bad as it might seem, yet on the other hand, it does seem perverse. It does not make sense.

Would you agree with the position taken by Professor Christ, who said he thinks that the Federal Reserve Board should never decrease the money supply, never permit it to decrease over a period of say a quarter?

Mr. MITCHELL. It depends on what was done in the previous quarter. You may have a situation——

Chairman PROXMIRE. Then you would disagree?

Mr. MITCHELL. Yes.

Chairman PROXMIRE. You would say there are circumstances in which you ought to reduce it?

Mr. MITCHELL. Sure.

Chairman PROXMIRE. Here is what I think is the kind of thing he is getting at. He is pointing out that you did have this very hard to understand and explain situation that occurred last year, in which the money supply was increasing rapidly and the price of money was going up at the same time. Interest rates were high, although the money supply was increasing.

It is hard to understand. He argued, and the other economists seemed to agree, that one reason is because the Fed was expected to continue in the future to increase money supply at a rapid rate. This was inflationary, and because under these circumstances the economic reaction to the expectation of inflation is to follow policies that tend to drive up the interest rates, people are less likely to lend money if they expect it is going to have a much lesser value in the future. They are going to ask for higher rates before they do lend it.

They argued therefore that if the Federal Reserve were committed to a policy of not increasing the money supply at a more rapid rate than 6 percent per year, that you would not have that kind of expectation, and interest rates would be inclined to be lower.

Mr. MITCHELL. I think that the argument that a steady increase in the money supply gives everyone a uniform expectation about the future, which is basic to Milton Friedman's argument——

Chairman PROXMIRE. Yes.

Mr. MITCHELL (continuing). Falls apart when you get disequilibrating events such as we had in the fall of 1965, with a major change in the Government deficit and the Vietnam spending. It hasn't anything to do with money supply.

Chairman PROXIMIRE. We understand that; but you see one of the disequilibrating factors—it would be a fluctuating money supply that could go way up or way down and is likely to continue to increase