they were able to accumulate in 1967; because it would have made them somewhat less enthusiastic spenders in the first half of 1968, which I gather we all agree is a period in which we would do well to have a little cooler economy than we have had.

I think if you want to be more precise, it is probably better not to look at the total year 1967, but break it up a little. The very rapid rate of monetary expansion carried through, shall we say, the summer of 1967, when money stock was continuing to rise at 7- and 8-percent annual rates——

Chairman PROXMIRE. Ten percent, wasn't it, during that period?

Mr. NOYES. It depends upon the period. You can get a period that is 10 percent, you can get a little longer period at 7 or 8 percent.

Chairman PROXMIRE. For 6 months, it was?

Mr. NOYES. Yes. I think with the benefit of hindsight, you can now say it was probably unfortunate; because it did put corporations—through just the process Mr. Gaines has been explaining—in a more liquid position, and therefore in a better position to proceed with high expenditure rates in the subsequent period—that is, the first half of 1968.

Now if you look at the monetary policy since November of 1967, you find that the rates of expansion have been, on average, much more moderate. The narrowly defined money supply has increased at about 4.9 percent, a little less than 5 percent, since early November. The rate of increase in time deposits has been about 6.5 percent.

Senator PROXMIRE. You see our argument is that it should be 2 percent.

Mr. NOYES. Well, 2 percent, in the present circumstances, might create conditions which you might find would be worse than the disease. I do not know that the others on the panel would agree with me on that.

Senator PROXMIRE. What this does, of course, is to make it necessary to follow other policies to try and overcome the disintermediation. Obviously it might have a devastating effect on the housing industry, unless you at the same time have the Federal Reserve Board do its best to support the housing industry through buying FNMA obligations and that kind of thing.

Mr. NOYES. You are acutely aware, I am sure——

Senator PROXMIRE. Of course, it also puts pressure on Congress to change its fiscal policies in a hurry.

Mr. NOYES. The monetary mechanism does not work with a completely flexible institutional framework; so dramatic changes in the rate of interest, even if they might be desirable in some aggregate sense, can create very severe institutional problems.

Mr. GAINES. Mr. Chairman, could I respond to your suggestion? Congressman Reuss in his January statement proposed that the Fed attempt to promote lower rates of interest in the morgage market than would otherwise obtain.

I cannot think of a better way to guarantee that there would be an absolutely inadequate supply of mortgage funds, and therefore——

Senator PROXMIRE. Adequate or inadequate?

Mr. GAINES. Inadequate.

Senator PROXMIRE. Inadequate?