

Senator PROXMIRE. Broadly defined money supply?

Mr. NOYES. To include time deposits.

Then I think I would be still more comfortable, and I know Mr. Gaines would be more comfortable, it instead of using either of these money supply concepts you said the Federal Reserve should come up and explain why total credit flows have not expanded at a rate equal to the rate of growth expansion in current dollar GNP or something like that.

Don't hold me to this precise wording. I am not trying to put words in Mr. Gaines' mouth about the precise guideline to use for total credit flows. Maybe he can suggest it, but a total credit flow guideline as the trigger for their report to you, rather than a narrowly defined money supply guideline, would be preferred.

Senator PROXMIRE. At any rate, then, to try and get this, I guess all three of you agree that we should use a better measure than money supply. You all also agree that it would be useful for this committee to suggest a guideline in something like this area without any mandatory legal action, and then ask the Federal Reserve Board to come up on a quarterly basis when they exceed the units and say why they did and justify it, with the press present so the Congress gets as full an understanding of this as possible, and we can recommend whatever actions seem necessary on the basis of developing an expertise over some years in this whole area.

Mr. HART. Why can't you ask them, Senator, to explain the basic movements in these credit structures? I mean that is really all you need to ask them, it is not, without tying it into any particular—

Senator PROXMIRE. It seems to me we have to have some kind of a trigger, a focus.

Mr. HART. You want a measuring stick somewhere?

Senator PROXMIRE. I think that is right, yes. You see, as I tried to enunciate at the beginning of the hearings this morning, you can make an assumption that this committee has made, that the money supply, other things being equal, ought to keep pace with the growth in the gross national product caused by increased productivity and increase in the work force, and to the extent that this is a growth of 4 percent, the money supply ought to grow at 4 percent.

Now, if you have a range between 2 and 6 percent, presumably, there will be a tendency, a proper tendency on the part of the monetary authorities, to stabilize the economy by going at the lower end when you have inflationary tendencies and at the higher end when you have recession.

There are very great compensating elements here.

Obviously, if in the depression of the 1930's instead of decreasing the monetary supply the monetary authorities had insisted on increasing it at 6 percent, it would have had a much more desirable effect on the economy than what they did.

Obviously, in a period like we are experiencing now, instead of increasing the money supply as they did last year by a very big amount, increased it at 2 percent, it would have had a very distinct restraining effect. So that looking at it from the standpoint of taking away the discretion of the Federal Reserve to a considerable extent, hoping they will take it away themselves with this kind of guidance, that you will have in the future a better monetary policy than we have had in the past.