Senator PROXMIRE. I just want to say he has contributed, as one member of this committee, to this particular concept.

I think he initially suggested it, pressed hard for it, and he was also the one who suggested a rather substantial modification in it.

I have a couple of more questions before I yield to Congressman Reuss.

Mr. Gaines?

Mr. GAINES. Just a very brief comment on something which you said, that the money supply is a clear and simple guideline. I believe that the three of us here, and our economist collegues, generally, would agree that the Congress should take more direct interest in Federal Reserve policies than it has, and that it is most appropriate to set up some measurement by which you could judge whether or not the Federal Reserve is behaving properly.

Senator PROXMIRE. Right.

Mr. GAINES. But our concern, I believe, at least mine, is that the money supply is not a clear and simple concept.

As a matter of fact, if I knew exactly what money supply was, I think I would be more inclined to agree with you.

Let me cite just one illustration.

Most companies in the United States of any size at all operate from day to day in an overdraft position on their checkbooks. They are relying upon the time it takes for checks to clear to maintain the kind of balances that their banks demand of them.

Now, there has been much talk of the checkless society in the future where all the computers of the companies and the banks would be linked together, with funds shifted instantaneously. If we were to put that system into effect tomorrow, most of U.S. business would be overdrawn immediately and the money supply would be cut in half.

Now, with this major uncertainty as to what in the world money supply actually is, and with movement in this direction as something that is conceivable for the future, what kind of adjustments are you going to have to make in the guidelines for money supply to be the guide that you wish it to be for the Federal Reserve?

Senator PROXMIRE. Well, my answer to that would be that it is true that there are all kinds of changes. Another change was suggested in the efficiency with which demand deposits are used, and so forth.

I think it is necessary to develop some kind of guideline. The reason I suggest money supply, that several responsible economists have suggested this, and it is a concept which is appealingly simple to me because, after all, if the money supply is what the Constitution gives the Congress control over, specific control over, and the interest rates of course is the price of money, and the economy does revolve around money and the money supply. I think you can make a very strong case for bank credit and I think that is something that the committee ought to consider most carefully, in view of the fact that you gentlemen have proposed it and other economists have also said the money supply is not the target we ought to use.

Let me just get in a couple more questions and then yield to Congressman Reuss.

Mr. Gaines, you said something about the Federal Reserve having keyed our interest rates to interest rates abroad, at times in the past, so that we can affect the flow of capital by varying our interest rates,