

ditions in turn depend to some or to a considerable extent on fiscal policy, on the targets set by our economic powers that be, in the executive branch especially, as they influence Congress, too, and if these targets are very low, as Professor Tobin has emphasized, you are likely to get some stagnation which will mean lower interest rates, but not with the results that most of us really want.

Mr. CULBERTSON. I may not go quite that far, Senator. If it keeps increasing at something like a 6-percent rate that should be interpreted as stagnation.

Chairman PROXMIRE. What is increasing at a 6-percent rate?

Mr. CULBERTSON. GNP.

Chairman PROXMIRE. You are talking about the total increase, the money increase plus—

Mr. CULBERTSON. Yes; total increase. As I say, I don't visualize that the coming year will necessarily be one of stagnation, and if it isn't, it is not clear that interest rates would decline much further, if any further, than they have. The context in which they would decline is that we have a recession.

Chairman PROXMIRE. At any rate, what you say is so startling that at first I thought you may have made a mistake, but you haven't made a mistake. I say this because we have accepted here the assertions by the Chairman of the Federal Reserve Board that he is adopting an easier money policy.

He points to increased bank reserves. He points to a drop in short-term interest rates. We all know these are statistical facts we can't deny, and you point to the money supply, which after all is the best index, and as you have indicated so well in your statement here, these other things are a reflection really of economic conditions.

The money supply in the third quarter of the year dropped 0.47, dropped about a half a percent. It was about neutral—0.01 percent in the fourth quarter—and it is about neutral—0.01 percent minus in this quarter.

So that with a growing economy and with a growing need for money obviously, this kind of policy is still restrictive. You are right. And this is a most helpful correction.

Mr. TOBIN. Senator, may I comment?

Chairman PROXMIRE. Yes; I wish you would, Professor Tobin. I might say we are very fortunate to have two outstanding monetary experts here. Professor Tobin is certainly one of the most gifted men in this area in our country.

Mr. TOBIN. Neither money supply nor interest rates is an unambiguous indicator of policy, because both of them reflect a mixture of forces: on the one hand, the things that are happening in the private economy to the demand for credit, and on the other hand the things that are happening in the Federal Reserve System.

So that it is a great mistake, in my opinion, to say that one of them, either one, is reflecting what is happening in the economy and the other one is the measure of policy.

Chairman PROXMIRE. I understand that, but what I am trying to say, Professor Tobin, is that the Federal Reserve Board can increase, decrease, or maintain the same money supply.

Mr. TOBIN. They can. They can also do that with interest rates if they want to.