

Under these circumstances, doesn't it seem logical that it would achieve a better economic situation if we had a positive increase in the money supply by the Federal Reserve Board, or does it not?

Mr. TOBIN. I think it very sensible right now for the Federal Reserve Board to engage in an easier monetary policy, that is to make bank reserves somewhat, perhaps even considerably, more plentiful than they have been. The result of that will be that there will be reductions in interest rates. Some have already occurred. It may be that such a policy would also bring about expansion in the statistical magnitude that you are talking about, the money supply.

But my point was that it is not fair to say that they haven't eased money simply because the money supply hasn't increased.

Chairman PROXMIRE. Let me ask, if I can get from you, Mr. Tobin, this will be very helpful; we have gotten from Mr. Culbertson an estimate of a 2- to 4-percent increase in the money supply in the coming year that would be desirable. Would you care to indicate any specific figure or do you think it would not be helpful to indicate how rapid an increase in the money supply we should have under present circumstances, assuming that things will remain more or less as they are in the coming year.

Mr. TOBIN. No, I don't think that is the way to look at monetary policy at all. Let me remind you that the bank reserves which the Federal Reserve controls relate not only to demand deposits, which are included in the money supply, but also to a whole category of bank liabilities called time deposits. These are larger in quantity than demand deposits, but are not counted as the money supply. The Federal Reserve properly worries about what is happening to time deposits as well as to demand deposits. To say that we should ignore time deposits because they don't count in money supply just doesn't make any sense to me.

Chairman PROXMIRE. Let's get away from this money supply figure. I think that you have made some very helpful refinements in my understanding of them. Let me ask you one other thing because my time is just about up.

In your statement you say—and you quote the Council's statement:

The experience of 1966 clearly suggests that expanding demand cannot lower the unemployment rate much below the present level without bringing an unacceptable rate of a price increase.

You obviously quote that and disagree with it, which I would be inclined to do, too. You give one reason and that is that we haven't had a change in unemployment in the last year.

A second modification might be that the impact of tight money on prices, specific commodity prices, has not been as effective in keeping the price level down and is unlikely to be in a cost-push situation as effective in keeping the cost of living down as many people have assumed, particularly since food is a big element in the increase in the cost of living, and mortgage interest rate accounted for one-third of the increase in prices last year. Of course, this had a perverse price effect because of the tight money policy.

Mr. TOBIN. Senator, regarding the statistical effect of rises in interest rates on the cost-of-living indexes, I think there is a kind of statistical illusion that we shouldn't pay too much attention to. The way the indexes are constructed, we don't give the people who are sav-