

The swing of required reserves, the reserves they actually are using, from the supply of unborrowed reserves by the Federal Reserve to them is from, oh, five or six hundred million dollars excess reserves some years ago to four or five hundred million dollars net borrowed reserves in recent periods of tight money.

So, there is a good deal of slack between the supply of reserves to the banks and the quantity that they use.

Now the second point is that the money supply, as defined, is currency plus demand deposits. The reserve base is the reserve base for the deposit liabilities of the commercial banks, including both time deposits and demand deposits.

Time deposits are not conventionally counted in the money supply. When the Federal Reserve supplies reserves to the banks and when the banks make loans and receive deposits, it is not determined by the Fed or by the banks in advance whether the deposits will arrive in the form of time deposits or demand deposits.

But the statistical magnitude that so entrances everybody will be different, depending upon which way it happens. I am not saying that the Federal Reserve is impotent to affect what happens in all these respects, because they can, by their discount rate, by the ceiling rate that they allow on time deposits, affect the choices that the banks make and the choices that the public makes.

But the point I want to make is that it is a travesty of what is happening to talk as if the Federal Reserve has a lever at its command marked "money supply" and you just push it where you want it.

They can do things which will affect the money supply and they can move the levers that they do have sufficiently so as to keep the money supply on some target, if that is what they want to do. But this is not necessarily what they have been doing, or what they should do.

Representative RUTSS. I am over my time, but when I next have a go-around, I will start there and ask you what they should do.

Chairman PROXMIRE. Senator Sparkman?

Senator SPARKMAN. Thank you, Mr. Chairman. My questions will be quite brief. In your paper, Dr. Tobin, I believe there was a statement with reference to disappointment over not reducing the unemployment rate below the 4-percent level. Is that correct?

Mr. TOBIN. Yes, sir.

Senator SPARKMAN. Dr. Tobin, to what level do you think it is practical to reduce it?

Mr. TOBIN. Well, we have experienced unemployment rates as low as 2.9 percent.

Senator SPARKMAN. When was that?

Mr. TOBIN. In 1951 I believe.

Senator SPARKMAN. In 1951?

Mr. TOBIN. Yes; I believe so.

Chairman PROXMIRE. I think it was in 1953.

Mr. TOBIN. I am not even speaking about the low unemployment rates we had in World War II, which were almost as low as 1 percent. So it is feasible to reduce the unemployment rate at least as far as 3 percent, and perhaps farther. Doing so may have consequences that we wouldn't like; namely, that we would have a faster rate of inflation, wage and price inflation, with very low unemployment rates, than we would wish to accept. What I was suggesting is that I don't think we