

should be satisfied with the 4-percent target indefinitely. We should try to move to a lower target, but not to move there all of a sudden. I think moving the unemployment rate down too fast is a source of inflationary pressure that can be avoided if it is moved down gradually.

I wouldn't like to set an ultimate rate. I would like to try to get it down below what it is now, by trial and error, seeing what kind of price and wage pressures develop.

Senator SPARKMAN. In other words, the exact figure is not so important. The important thing is just to try to press it down as much as may be practicable.

Mr. TOBIN. Yes, sir.

Senator SPARKMAN. Now one other thing. That has to do with the increase in the money supply, Dr. Culbertson. I note that you say in your paper that monetary expansion at a rate of 2 to 4 percent per year, perhaps with a faster rate very briefly to assure against the onset of a recession, would be appropriate. How would that compare with the expansion of money say over 1966?

Mr. CULBERTSON. The recent behavior has been quite erratic. From the spring of 1965 to the spring of 1966, the money supply was going up at a rate of over 6 percent. In the subsequent period of almost a year, it has not gone up at all.

My point is—maybe putting it this way—with our present state of limited knowledge, the effects of such erratic behavior in the money supply are quite difficult to predict. In this case, at least the first one went in the wrong direction. So less abruptness in the present state of knowledge would be appropriate. The pattern I propose is something that would be fairly close to the recent past average, and something that can be justified as not inconsistent with a moderate rate of growth in GNP.

Senator SPARKMAN. Is there a relationship, or should there be a relationship, between the increase in the supply of money and the increase in population, or better still perhaps, an increase in the gross national product?

Mr. CULBERTSON. Well, our knowledge does not permit us to define any fixed formula. There is some presumption that other things equal, if there isn't a shift in the desire of people to hold money in relation to their expenditures, the presumption is that the money supply would have to grow at about the same rate as GNP. You can't guarantee that there won't be such shifts, but recently they have been only of modest proportions. We are looking for some sort of a benchmark, not a fixed rule but some sort of benchmark. The usual expectation is that growth in the money supply will be somewhere near or at the same rate as growth in GNP.

Senator SPARKMAN. Now you bring up another matter there. That is the question of a tax increase. That is something with which the Congress is going to be confronted with before too long.

You say that there should be a tax increase if it is required to offset further increases in Government expenditures. How are we going to determine when the time comes whether or not such a tax increase is needed?

Mr. CULBERTSON. Well, Senator, my general point is that controlling fiscal policy represents a very difficult problem, and one that we have not mastered. From some of our earlier discussion here, one might