

permitted to earn a cent. You are effectively removed from the labor market, where you possibly could be employed for just a couple of hours somewhere where needed.

May I suggest that we have a really very good test case that I think will be available immediately. I haven't really checked into the Indian policy of this country, but I understand it is pretty bad. Indians seem to be dying off, and they are all in poverty or most of them, and yet we have more people at the Bureau of Indian Affairs almost than we have Indians.

Suppose we suspended the Bureau of Indian Affairs for a year, and sent the money to the Indians? You could at least check it out. I mean maybe at the end of that time they wouldn't be poor.

Mr. TOBIN. I certainly support the spirit of your suggestion, without knowing enough about Indian affairs.

Representative GRIFFITHS. At least it would be a good test case. Who really is against Indians having some money? The policies that we have been following have done nothing to help. They are starving to death.

Now may I ask you, Mr. Culbertson, what monetary policy do you think would be consistent with a full employment rate and a stable economy?

Mr. CULBERTSON. Well, the presumptive policy in the present state of our knowledge I think is a fairly steady rate of growth in the money supply, adjusted with departures in one direction or the other to offset tendencies toward excess or deficient growth in total demand. We have to play this by ear as it were, in that we can't write a magic formula, but this I think should be played by ear with smaller adjustments and some defined presumptive benchmarks rather than with the erratic hopping about that we have had in the past.

Let me say that there is a well-developed rationale for referring to the money supply as a measure of monetary policy. It goes far back in economic theory, and I think underlies a great deal of recent work. This is not, of course, because the Federal Reserve has a lever labeled "money supply." It is a question of what is the most useful guide to Federal Reserve actions in the present state of knowledge.

There is a difficult interpretive issue in using criteria relating to interest rates in that interest rates are closely affected by economic conditions and demand for credit. The interpretive problem involves distinguishing the independent influence of the Federal Reserve on the economy from feedbacks operating in the economy as a part of its dynamic processes.

In the present state of knowledge, we simply may not know what the interest rate ought to be. Of course, that would be the problem. Does the administration have the knowledge required to know what the interest rate ought to be now? And since the interest rate is very closely sensitive to changes in economic conditions and even in the state of psychology, will they know what it ought to be 2 months from now?

The problem is one of designing a strategy for operations in the face of limited knowledge. The rationale for referring to the money supply is that this is what the Federal Reserve controls fairly immediately, and therefore it is a reasonable measure of its direct influence, of its independent influence upon the economy.