

Professor Tobin is quite right that most immediately, of course, the Federal Reserve only controls bank reserves, the discount rate, and so on. But I suggest that it is impossible to formulate criteria for Federal Reserve open-market operations, say, in themselves. The presumption of the system is that there are certain kinds of changes in bank reserves that the Federal Reserve offsets. One makes the necessary consolidations and the index that emerges, I think, is the behavior of the money supply.

Representative GRIFFITHS. You have suggested that we have had a restrictive fiscal policy, a buoyant economy, and an expansionary fiscal policy and a less buoyant economy. Maybe the fiscal policy—you suggest that the fiscal policy was really ineffective. Maybe the truth is that it works in reverse.

Mr. CULBERTSON. Well, I am afraid we can't prove anything at all very definitely. But it does seem difficult to sustain the proposition that GNP is very closely governed by fiscal policy, in view of the past lack of correspondence.

Representative GRIFFITHS. You are saying really that it is ineffective?

Mr. CULBERTSON. No. I am saying really that we have limited knowledge, and that it may be. It may have very much less effectiveness than it has been credited with. Therefore we have to design a policy strategy that is reasonable in the face of limited knowledge. It seems to me that cannot be said of the administration's program.

Representative GRIFFITHS. May I ask your opinion also as to an assured income policy?

Mr. CULBERTSON. Well, that is not one of my major areas of study, and so I would rather not comment on it.

Representative GRIFFITHS. Thank you very much. Thank you, Mr. Chairman.

Chairman PROXMIRE. Dr. Tobin, your statement is one of the most refreshing and forthright pleas that we begin to have a more optimistic and progressive attitude toward growth of our economy that we have had, and I would like to question you a little further.

You told Senator Sparkman you didn't want to recommend a definite number, that you rejected the 4 percent notion of unemployment as being hard to accept, but you didn't want to reduce the target to a specific number.

What would be wrong, would you object very much if we just arbitrarily said 3 percent? What would be wrong with that? Is there anything that would suggest that that would necessarily be an inflationary target?

Mr. TOBIN. Well, we don't know what the price and wage behavior of the economy would be at 3 percent, and when we talk about target for the unemployment rate in this context, we are talking about the target of stabilization policy, monetary and fiscal policy.

If we talk about all the programs, all the policies of the Government, we certainly should have 3 percent and lower figures of unemployment as our target. But that would depend on improvements in labor markets achieved by manpower policies.

But if we just talk about what target we set for monetary and fiscal policy, I wouldn't like to say right now that it should be 3 percent, without seeing what happens as we gradually move it down.

Chairman PROXMIRE. You pointed this out, and you are right. In