

periods and brought on recession, and increased it at a too rapid rate at other times and brought on inflation, and that if it regulated the money supply, it would be better off than if it concentrates on either the level of interest rates or on various other factors.

This seems to be a thesis with which you don't agree, Dr. Tobin, and in order to get it through my head as to just what the dialog is here, let me call your attention to the 1962 Economic Report of the President by the three advisers, Heller, Gordon, and yourself.

In this report, on page 92, the Council suggested that for the year 1962, in order to secure the projected increase in the gross national product, there ought to be an increase in the money supply of $3\frac{1}{2}$ to 4 percent, and of liquid assets of about $5\frac{1}{2}$ percent.

In fact, the Fed paid no attention whatever to this wholesome recommendation. Throughout 1962, as Dr. Culbertson's chart titled "Money Stock," which appears in his prepared statement (p. 590) shows, the Fed increased the money supply practically not at all; and as a result we had a distressing shortfall in 1962, and we didn't come anywhere near meeting our 1962 GNP hopes.

My question is, Weren't you and your colleagues right in 1962? Wasn't the Fed wrong? And isn't the present Economic Report rather sadly lacking, in that it not only doesn't tell us what kind of a money supply target we ought to have for this year, but hardly mentions money supply at all?

Mr. TOBIN. In 1961 and 1962 my colleagues and I were advocating more expansionary policy of all kinds, more expansionary fiscal policy, more expansionary monetary policy, because our diagnosis of the situation was that the economy was so far from full employment and had so much slack in it that we needed anything we could get in the way of expansionary policy, and we ran into some resistance on getting more expansionary fiscal policy, and we ran into some resistance on getting more expansionary monetary policy.

I wish we had had more expansionary both kinds of policy at that time, and we would I think have had more rapid return to full employment than we have had.

Representative REUSS. Right. I do, too, and your record is a most imposing one, both in 1962 and by hindsight.

My question is, Weren't you on the right track, and isn't the making of some projections of how the money supply ought to increase, a meaningful exercise for the Council of Economic Advisers, and shouldn't its advice be honored in the observance rather than in the breach by the Fed?

To put it another way, was the more than 6-percent increase in the money supply in the short period from February 1965 to February 1966 a sensible increase? Wasn't it too much?

And equally, was the nonincrease in the money supply back in 1962 sensible or not? And, of the most importance today, is the failure of the Fed to increase the money supply in the last 9 months sensible, and should we be beguiled by the fact that interest rates are now down?

As Professor Culbertson says, they are down because we are undergoing the first pains of a recession. In short, address yourself, as you have been, to the thesis that the money supply is a good polestar to guide by; that we shouldn't have the same projection in every year, but maybe in a good year 2 percent is enough; in a bad year 4 percent is needed. But should we have years in which there is a decline in the