money supply, and should we have years in which there is a 6.2 percent increase in the money supply? Both of those occurred in the 1960's.

Mr. TOBIN. The trouble with the general way of thinking about the situation that I find in Mr. Culbertson's presentation, and in your able service as his attorney, is that it seems to assume that the sources of instability in the economy are due entirely to what the Government does—to unstable variations in Government policy, or unstable variations in Government fiscal policy.

Now those may cause instability in the economy, but there is also probably a much greater source of instability in the economy in things that happen in the private sector; changes in the demand for capital, changes in the demand for money itself, changes in the ability and willingness of people to spend money, technological changes and so on. These changes occur more or less autonomously in the private sector or are the result of long past policies or of the past history of the economy.

Now those are much more important sources of instability in the economy than are the changes in Government policies, and the purpose of Government policies is to try to offset them.

If you look at the record of the instability of the economy before there was Government stabilization policy, when nobody was trying to offset them, and compare it with what has happened since people have been trying to offset them, I think you can conclude that on the whole Government policy has done more offsetting than accentuating of these basic sources of instability.

Representative REUSS. I thoroughly agree that monetary policy is merely one element, and that the big sources of instability are in the private sector.

Mr. TOBIN. Yes. Let me draw the conclusion that I want to draw from that, which is that the appropriate stance of Government policy in any particular year depends on what is happening in the private sector, and there may be years in which you want to have the money supply grow by 10 percent and there may be years in which you want to have it decline by 2 percent, and similarly with fiscal policy, because the basic factors that you are dealing with in the private sector are very different in those years.

You are not necessarily going to stabilize the economy by just putting your feet on the accelerator at the same level all the time, or on the brakes at the same level all the time.

Representative REUSS. What you have done, it seems to me, is to—so to speak—widen the goal points of the Culbertson thesis. You said 2 to 4 percent isn't enough. It should be a negative 2 to 10 percent, and for purposes of argument I will accept that change. But my specific question is this.

Having regard for the total variables, public and private, of the economy, was it sound and wise of the Federal Reserve System, in the year 1962, to fail to increase the money supply, and was it sound and wise of the Federal Reserve System, in the year from February 1965 to February 1966, to increase the money supply by 6.2 percent?

I think they were wrong both times, and that the Tobin 1962-Culbertson 1967 thesis was right.

Mr. TOBIN. You are doing two things to me at once, Congressman. One is to ask me to comment on past Federal Reserve policy, and the