Mr. DEWALD. I am not sure I follow. Changes in the rules and regulations and changes in the rate of monetary growth introduce instability. I think to the extent that you did get a response of the economy to the changes in interest rates associated with stable monetary growth, the direction would probably be the correct one.

Chairman PROXMIRE. I am going to ask Mr. Henderson to put the question.

Mr. HENDERSON. My question, Professor Dewald, was concerned with real investment. If you had variability in the pattern of interest rates that went through from the money markets to the long-term rates, and then affected real investment, is it not possible that the variability of the demand for real investment resulting from that variability of the cost of investing would be destabilizing?

Mr. DEWALD. That is always a possibility. However, presumably investments depend not only on short-term rates of interest that are going to reflect immediate day to day and week to week, changes in the demand for money, but they are presumably going to depend much more sensitively on longer-term rates of interest, and there is absolutely no reason why there should be much variability in long-term rates of interest as the result of stabilizing monetary growth.

So I see no reason why there would be increased variability in long-term rates of interest and hence, I see, no reason why there should be instability in investment.

Mr. HENDERSON. How are long-term rates of interest to be effectively stabilized in the event that the money market has unstable interest rates?

Mr. CHRIST. I do not think any explicit stabilization would be needed. If we were to see the money stock growing more steadily, not increasing its growth rate so much at some times and not decreasing in a recession, then I think the recessions would be less severe, and the need for a recovery from the bottom of a recession would be less severe. This would create an expectation of smoother increases in real output than we have now, and without such great interruptions as the business cycles have given us in recent years. I think that given a steady growth of real output, then long-term rates would not fluctuate very much. The short-term rates might.

But the long-term rates are based, as Mr. Dewald said, on expectations about what is going to happen in the future.

Mr. DEWALD. Could I comment further on that? Suppose you had a period when the monetary growth was accelerated relative to what we would have under the present regime of policy.

Consider the early 1930's again. Indeed interest rates in that circumstance might have fallen faster than they did, and from that point of view you would, of course, stimulate response in expenditure. So that even if interest rates become more variable over the cycle, associated with stabilizing variation in monetary growth, the effect, I think, is in the right direction. Rather than destabilizing the economy, the effect of those interest rate changes would be to stabilize the economy.

I cited the seasons. It is conceivable that if we had more interest rate variability over the seasons of the year, we would have less unemployment variability, which would be a good thing.

Mr. HENDERSON. May I try to paraphrase what I think your main point is, that some of the effects that have been taken into considera-