

Employment Act of 1946 is, along with the Federal Reserve Act itself, a directive for their guidance. Discussion persists, however, as to whether such broad language of the Employment Act is adequate or sufficiently specific to serve as a rule for the guidance of the Federal Reserve authorities, acting as the monetary agent for the Congress."

Chairman Proxmire continued: "The Joint Economic Committee has heard much evidence over the years on the role of monetary policy and, in its recent annual report, has made some specific policy recommendations. Nevertheless, there remain some very difficult unsettled questions about monetary management. Some of these arise from our experience in the 'credit crunch,' and most of them have to do with actual operations and market responses, rather than with theory or the 'Monday-morning-after' empirical testing.

"We need to get better understanding of some very important practical matters. For example: What are the interrelations between monetary policy and fiscal policy and to what extent can they be regarded as alternatives? Are the Federal Reserve authorities really able accurately to manage the stock of money, however, 'money' may be defined? Is there really sufficient knowledge of the time that it takes to recognize the need for monetary action and of the ultimate response to a change in policy directives once they have been decided on? Are corporate policies in holding cash, bank deposits, certificates of deposit, and portfolio management, in general, sufficiently predictable to give the Fed a firm basis for policy making? Were the relatively wide swings in the rate of increase of the stock of money over the past 2½ years to some degree inadvertent, or were they, in part, attributable to attempts by the Fed to avert disturbing variations in the pattern of interest rates?

"These questions call for an examination of the manner in which policy actions of the monetary authority are actually translated into decisions at the member-bank and money-market level. Federal Reserve actions cannot ignore the fact that the stock of money, whatever it may be at a given moment, is actually held by someone who is willing to hold it in preference to short-term near-monies, longer term securities, or even commodities.

"The Committee intends," Senate Proxmire said, "to see whether rules of monetary policy action can, indeed, be formulated which are both realistic and testable after the event enabling one to assess whether the effects of an action taken have been of the scale, character, and timing that was expected. The testimony should provide, moreover, some estimate of the impact of external influences—the necessities of government finance, the corporate search for liquidity, and institutional features of the money markets. Any one—or all—of these is likely to complicate any simplistic system of good rules."

CONGRESS OF THE UNITED STATES JOINT ECONOMIC COMMITTEE—HEARINGS

MAY 8, 9, 15, 16, 1968, ROOM S-407, THE CAPITOL

STANDARDS FOR GUIDING MONETARY ACTION

Wednesday, May 8—10:00 a.m.

Standards for Monetary Action as Viewed from the Academic Community:

Lester V. Chandler, Professor of Economics, Princeton University.
Franco Modigliani, Professor, Departments of Economics and Industrial Management, Massachusetts Institute of Technology.
Henry C. Wallich, Professor of Economics, Yale University.

Thursday, May 9—10:00 a.m.

Standards for Monetary Action as Viewed from the Academic Community (continued).

Carl F. Christ, Professor, Department of Political Economy, Johns Hopkins University.
William G. Dewald, Professor of Economics, Ohio State University.
Richard T. Selden, Professor of Economics, Cornell University.