

Money may be difficult to understand, but it is not totally inexplicable.

The principal aim of these hearings is to ask experienced people from the academic world, from the financial world, and from the Federal Reserve System itself:

What it is that they believe to be the Fed's current principles of monetary control;

What the Fed is looking at when it makes up its open market mind; Whether these are the right things to pay attention to;

Whether the Fed is able accurately to gauge the need for action or to foresee the effect of action taken;

In short, what standards there are, or could be, for responsible and effective monetary policy.

We are not engaged in a strictly theoretical inquiry, but in an examination of the operation of the system. We are not specifically asking why the Fed did a certain thing at a certain time, but we are trying to make clear to ourselves how the Fed looks at the process of decisionmaking.

We began by inviting, for today's and tomorrow's hearings, panels of distinguished academic experts on these matters to give views "from the outside," so to speak. Next Wednesday we shall have the testimony of Governor Mitchell of the Federal Reserve Board and Daniel Brill, Senior Advisor to the Board and Director of its Division of Research and Statistics. To conclude the series, we shall, next Thursday, have three representatives of the financial community give their views on monetary management as seen by those directly affected by its decisions.

The witnesses have been provided with some background material which the Federal Reserve has given to the committee in response to an inquiry of Mr. Reuss. Without objection, that will be part of the record as an appendix of these hearings.

You are invited, gentlemen, to give your testimony freely and with whatever perspectives you regard as most useful.

Professor Chandler, you might start off.

STATEMENT OF LESTER V. CHANDLER, PROFESSOR OF ECONOMICS, PRINCETON UNIVERSITY

Mr. CHANDLER. Mr. Chairman, I should like to begin by congratulating you and your fellow members of the Joint Economic Committee for investigating the issues before us today. These are so controversial, so little understood, and so important to our economic well-being that they merit very serious discussion.

It will be useful to divide guides for monetary policy action into two types: (1) guides relating to the objectives to be promoted by the monetary authority, and (2) guides relating to the specific monetary actions to be taken to promote the selected objectives.

I shall deal first with guides relating to the objectives of monetary policy. There is no shortage in the number of objectives provided for the Federal Reserve by the Employment Act of 1946, the Federal Reserve Act, forceful statements by the executive department and by Congress, and the sheer force of public opinion. Among the major objectives are maintenance of continuously low rates of unemploy-