

ment, a high and stable rate of economic growth, reasonable stability in the purchasing power of the dollar, and a stable exchange rate for the dollar. In addition, there is often official pressure on the Federal Reserve to temper its policy to other objectives or considerations—to avoid significant changes in money market conditions at times of new Treasury issues, to avoid “excessively high interest rates,” to protect the flow of funds to nonbank financial intermediaries, and to ameliorate effects on the residential construction industry.

Thus, the Federal Reserve suffers from no lack in the number of guides relating to its goals or objectives. However, it has been given virtually no official guides as to how it should weigh the various objectives and select among them when they come into conflict. Some of these objectives are likely to be at least partially incompatible, even under the most favorable circumstances. They will almost certainly be incompatible if monetary policy is not assisted by timely and flexible fiscal policies, or when, as during the last 2 years or so, overall fiscal policies create an unfavorable environment for monetary policy.

I recommend that the Congress give serious consideration to providing more specific guides relating to the objectives of monetary policy—guides relating to the weights to be attached to the various objectives. Such an attempt by Congress might yield two beneficial results. First, it might provide more specific guidance to the Federal Reserve in terms of goals or objectives. Second, the very process would afford Congress an opportunity to reassess the relative roles of monetary policies and of other policies, including various types of fiscal policies, in promoting and reconciling our economic objectives.

I turn now to the second type of guides—guides relating to the specific monetary actions to be taken to promote the selected objectives. These might also be called operating guides. I do not believe that Congress, or anyone else, can formulate specific operating guides that will promote selected economic objectives in anything like an optimum way. In fact, we would be fortunate indeed if the specific guides did not on many occasions lead us away from our chosen goals. And the more specific and binding the operating guides, the greater is the danger.

A specific operating guide would presumably be formulated and prescribed in terms of the behavior of some financial or monetary variable. For example, it might be stated in terms of a prescribed behavior of interest rates, or the behavior of total bank credit, or the behavior of the money supply, however defined. None of these is in itself an ultimate objective or of prime importance. Each assumes importance for policy purposes only to the extent that it is related in a reliable way to economic variables of greater importance—to such things as the behavior of aggregate demand for output and the responses of real output, prices and employment. For a specific operating guide couched in terms of some monetary or financial variable to be useful, you would have to be able to predict long into the future a constant relationship between that variable and the ultimate policy variable that does matter. I am convinced that this cannot be done.

Consider first the much-publicized proposal that the money supply should be increased—week in, week out—at an annual rate approximating the growth potential of real GNP. I shall pass for the moment the question of whether the money supply should be defined narrowly